

UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Financial Reporting, 2014 Reporting and
Production Reporting

March 11, 1999

Houston, Texas

1 APPEARANCES:

2

3 FOR THE MINERALS MANAGEMENT SERVICE:

4 Mr. Milt Dial
Mr. Mike Miller
5 Ms. Beth Danford
Mr. John Barder
6 Ms. Theresa Walsh Bayani
Ms. Paula Neuroth
7 Mr. Don Sant

8 THE PARTICIPANTS:

9 Ms. Barbara Norwood
Ms. Pat Kent
10 Ms. Jan Crowder
Mr. Glynn Myers
11 Mr. Ed Cernosek
Mr. Augustine Chan
12 Ms. Judy Sistrunk
Ms. Pam Williams
13 Ms. Connie Jones
Mr. Don Lynch
14 Mr. Wayne Pachall
Ms. Marvinette Ponder
15 Ms. Christell Sammons
Mr. Chester Anderson
16 Ms. Debbie Vandeven
Ms. Elizabeth Mason
17 Mr. John Bohannon
Mr. Freddie Watson
18 Ms. Millie Myers

19

DATE: March 11, 1999

20

TIME: 9:00 a.m.

21

PLACE: Houston, Texas

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1 MR. DIAL: This looks so formal and
2 we didn't intend to be quite this formal
3 looking. Why are we here? We will be spending
4 the next couple, three hours talking about
5 future reporting changes that are contemplated
6 and being worked on by the Royalty Management
7 Program.

8 We have sessions this morning and
9 sessions this afternoon. This morning is
10 focusing on financial reporting, 2014
11 reporting; and this afternoon is focusing on
12 production reporting.

13 And some of the concepts that we're
14 working with, we've worked very deliberately
15 with industry, States, and Tribes in coming to
16 define where we're at. We are continuing to do
17 information-gathering and fact-finding, wanting
18 input from all you folks out there.

19 Obviously you have a great interest
20 in this in being here today. We're pleased to
21 see you. I see some familiar faces: Texaco
22 and Shell and Devon.

23 Barbara, as I understand, saw Houston
24 in all its greater glory. Every beltway she's
25 seen finding her way here.

1 MS. NORWOOD: And the airport.

2 MR. DIAL: Started at the airport
3 just over there.

4 Well, one thing I wanted to again
5 emphasize is that we are still information- and
6 fact-finding. That's the purpose of these
7 sessions and the purpose of the Federal
8 Register Notice.

9 Nothing is fixed. Nothing is cast in
10 concrete. We have a clear process we've gone
11 through in getting where we're at. Some of the
12 folks who started early in this process have
13 seen the evolution. We still have a ways to
14 go, and I think we can all agree on that. We
15 still have a ways to go. And we've got the
16 time to be able to do this.

17 The facilities here are kind of
18 interesting. The restrooms are just right out
19 here, but you may find either in the men's or
20 women's restroom, you may find a person in
21 there that has a gun on their hip or a pistol
22 on the counter. The U.S. Customs Service
23 occupies a good share of this space.

24 In fact, just as I was in the men's
25 restroom and went straight to the wash basin,

1 and the first thing I see there is a pistol.

2 Well, it was sitting there and the owner of the

3 pistol, well, he was just around the corner.

4 My God, what a time to go postal. But it was

5 kind of striking to see that there.

6 So those folks are around the

7 building, and they're having some kind of

8 meetings this week so they are present.

9 We have soda pops upstairs on the

10 second floor, if you want something to drink.

11 I don't know if there's any vending machines in

12 the building or that sort of thing. There are

13 restaurants up and down the corridor here for

14 those of you who will be staying for this

15 afternoon session.

16 We have brought along lovely Valerie.

17 She is here to take notes for us. We didn't

18 want to try and undertake this ourselves. It's

19 kind of a difficult process to capture

20 everything and capture everybody's name and

21 actually create a set of minutes. The meetings

22 we've had in the past, we've pretty much done

23 that ourselves. This time around we thought we

24 would try an audit.

25 So Valerie asked that when folks are

1 commenting that you state which company you are
2 with and -- your name and which company you're
3 with. That will be helpful for her purposes of
4 taking notes. I think I know about
5 three-fourths of you at least, so it won't be a
6 problem for me but for her.

7 We did quite a bit of discussion on
8 what would be the best way to approach this in
9 discussing this notion of future reporting
10 requirements and changes in reporting data
11 elements. There are all sorts of strategies
12 that you can do in doing this.

13 First of all, there will be a whole
14 slew of folks that will have formal, stand-up
15 comments presented in writing and all that. I
16 notice we didn't have anybody interested in
17 doing that. And in a way we were pleased to
18 see that because we thought that the better
19 strategy from where we're at and where we're
20 trying to go and the information gathering
21 we're trying to accomplish here was basically
22 all of the same process we had in a number of
23 other sessions we have done to date, COPAS
24 membership, specific companies that we visited
25 over the last year or so.

1 And that process basically was to go
2 through the initial reporting concepts for
3 changing the way the 2014 is used to capture
4 data and then discuss each of the data elements
5 that's on the 2014.

6 It seems to have worked thus far, and
7 folks can gauge where they're interested in a
8 particular data element, what it means, and why
9 we need to process it, how we might be able to
10 collect it otherwise; or that data that is sort
11 of mysterious to you, why we even have this
12 process or is it even available out there.

13 Well, you're the people we're asking to submit
14 that information.

15 So in terms of the process we would
16 like to do that. We have a few opening remarks
17 about where we've been in this initiative. I
18 really wanted to have Paula, PaulaNeuroth at
19 the end of the table, who's been doing a
20 stalworth job of working the reporting side,
21 and she's -- the other day I called her and I
22 was inquiring, looking for the famous Paula
23 Neuroth who is out there on the World Wide Web
24 now: office number, home number, and she found
25 this fame to be a little overwhelming.

1 But Paula will help us on a little
2 bit of the background for those of you who
3 aren't familiar with where we've been from the
4 standpoint of committee recommendations and
5 some of the analysis we've got from other
6 member companies.

7 John Barter is from our Valuation --
8 Royalty Valuation Division. You've seen John a
9 number of times in a number of venues, I'm
10 sure. And John is here as part and a member of
11 the panel to address various aspects of data
12 elements that we're speaking to today.

13 Theresa Bayani is here. She smiles,
14 there we go, occasionally. You've seen Theresa
15 also in a number of venues. She is from the
16 Royalty Valuation Division and is also here on
17 the panel to again engage in dialogue and
18 continue this information gathering for us as
19 we're moving along to understand these forms
20 and future reporting requirements.

21 THE REPORTER: Mr. Dial, can I get
22 you to stand closer to me? Because I'm having
23 a little trouble hearing you. That would help
24 me out.

25 MR. DIAL: (Complies.) You won't

1 believe the third thing I need to do. You all
2 have copies of the notice, clearly. You've
3 read it. We'll be walking through it.

4 We -- I assume you all have copies of
5 a document called "Road Map to the 21st
6 Century." That provides you a pretty good
7 synopsis of where we've been on this
8 initiative, where we intend to go over the next
9 couple, three years with the Royalty Program,
10 with the industry, States, and Tribes
11 partnership moving forward.

12 It gives timetables on when we would
13 like to accomplish various events to make this
14 thing happen from an organizational standpoint
15 and information collection standpoint, a
16 process redesign standpoint and a technology
17 standpoint.

18 It outlines some of the benefits that
19 are out there. We believe in doing this for
20 the program, for States, Tribes, and
21 industries.

22 It also provides for those who were
23 interested in further reading a nice appendix
24 at the back. There are a whole bunch of
25 documents if you want to go from 52 pages to

1 5,200 pages to understand where we've been and
2 where we're trying to go. So it also sets the
3 context for the reporting changes that we'll be
4 discussing today and that we're considering and
5 contemplating.

6 If you haven't read it, it's very
7 much worth reading to see where we are headed
8 with this initiative. But it is out there on
9 the Web with several of the other documents.

10 In terms of the initiative, we are
11 tracking today an information technology
12 acquisition effort. I was expecting to see
13 some of the vendors sitting in the audience. I
14 don't see them today. Ah, I'm not
15 disappointed. Very good.

16 We've stepped through an initial
17 process of the corporate capabilities review
18 looking for a slate of vendors out there to
19 compete on a contract to basically build a
20 financial system for us, rebuild the system
21 we've got now. And --

22 MS. SAMMONS: Can you talk a little
23 bit louder?

24 MR. DIAL: See, that's step three.
25 Chester says move up. Is that better?

1 MS. SAMMONS: A little bit.

2 MR. DIAL: There isn't an adjustment
3 here so let's try this. From a vendor's
4 perspective we basically down-selected the five
5 vendors.

6 One of the objectives in our strategy
7 is to align ourselves as best we can with the
8 oil and gas sector in terms of accounting
9 systems that are out there, revenue systems
10 that are generated by us and sent to us.

11 The vendors that are out there on the
12 -- it's sort of a short list that we're going
13 to continue to work with, we're going to
14 request proposals and whatnot during the spring
15 and summer are Anderson -- Anderson Consulting,
16 Price Waterhouse, AMS, KPMG, and Oracle.
17 That's the crowd that's out there.

18 THE REPORTER: Mr. Dial, can I get --
19 I need to get you back beside me here.

20 MR. DIAL: Okay. So anyway, in
21 dealing with these vendors and the schedule we
22 have in front of us, it's going to be important
23 that we understand the data elements that we're
24 dealing with in terms of the data base we'll be
25 managing and the information we'll be using in

1 the future. That's why we're two and a half
2 years ahead of an effective date for these
3 reporting changes, to be able to have that
4 time, to be able to define those data elements
5 and where we will move.

6 Those were the main points that I
7 wanted to touch on. I'll turn it over to Paula
8 and ask for a little bit of history of where
9 we've been, and then Paula will walk us through
10 the remainder of the agenda in terms of
11 addressing reporting changes, how to use a 2014
12 in the future, and then the data elements that
13 are contemplated for capture on the 2014.
14 Paula.

15 MS. NEUROTH: Okay, now, you're
16 probably not going to have a lot of trouble
17 hearing me because years ago I was in the
18 military and they taught me two things: speak
19 up and be a moving target. So I intend to
20 move.

21 I was talking to some of my fellow
22 workers last night, and we were talking a
23 little bit about the current 2014 document that
24 we use and that it was probably developed in
25 the 1980-81 time frame.

1 We were joking around it was probably
2 developed by two or three people sitting in an
3 office one afternoon and they were done. And
4 we've been using that form probably for close
5 to 18 years now.

6 The current version that we're here
7 to talk about today we've been discussing and
8 having various meetings on for a minimum of
9 probably 14 to 15 months, and we still don't
10 have it. That's what we're here today for is
11 to get your input, to get your ideas about what
12 we really should be collecting on this form.
13 It's not an easy task because we have so many
14 people who are interested in this topic.

15 But keep in mind that this is your
16 meeting. It's not -- you know, it's not our
17 discussion; it's your discussion. So please
18 speak up as we go through this and give us your
19 comments and your ideas on this. Can everybody
20 hear me okay? If not, just raise your hand.

21 A couple of things like Milt
22 mentioned, the Royalty Policy Committee met in
23 like the '95, '96 time frame and made some
24 recommendations to modify royalty reporting. A
25 lot of those changes that they recommended we

1 have tried to incorporate in the current
2 proposal.

3 When those recommendations came out
4 in 1996, they really had some major systems
5 impacts for us, and we basically did not
6 implement many of those changes because they
7 were so system-intensive, and then also
8 something else came down the pipe called RSFA
9 which changed some of our direction and led us
10 to develop some new other systems requirements
11 that sort of took priority.

12 But now we really want to try to
13 incorporate some of those RPC recommendations.
14 And as we walk through this document today,
15 you'll see where we have been able to do that,
16 and in some cases we've gone a little bit
17 beyond what RPC recommended and tried to really
18 do some things that RPC wanted to do but just
19 didn't feel like it could do at the time.

20 We've also had quite a few public
21 meetings like this with industry
22 representatives and industry groups, the main
23 one being COPAS, had probably three or four
24 meetings with COPAS about these reporting
25 issues.

1 So I think we're close. We've
2 received quite a bit of input so far. Over the
3 next 60-day comment period, of course, we will
4 be collecting formal comments to the Federal
5 Register Notice, and then we'll see where we
6 stand at that point after collecting these
7 comments, see how close we are.

8 Any comments about what I've covered
9 so far? All right, then let's go through the
10 form elimination and reporting concepts.

11 One of the major things I think
12 you'll see in our proposal is that we're
13 proposing elimination of the Payor Information
14 Form. Again, that was -- the RPC recommended
15 trying to simplify that form and reduce the
16 frequency of the submission. And our proposal
17 has gone farther, of course. We would actually
18 like to eliminate that form.

19 So instead of submitting a Payor
20 Information Form to tell us you're going to be
21 reporting on the 2014, instead what we're going
22 to say is just report on the 2014. When you
23 report, that will establish the payor
24 responsibility.

25 Now, the PIF also established the AID

1 number, accounting identification number, and
2 basically which is the lease number and revenue
3 source code. So we needed a replacement for
4 that functionality. We still need to know what
5 the source of production and sales are.

6 So as a replacement for that, we've
7 added -- we've modified two columns on the
8 proposed 2014, one of them now says MMS lease
9 number; the second column says MMS agreement
10 number. So if you're reporting lease basis
11 production, you can report the MMS lease number
12 and leave the agreement number column blank.

13 If you're reporting sales from a
14 lease that's committed to an agreement, then
15 you're going to report the MMS lease number and
16 the MMS agreement number. That basically
17 replaces that revenue source code
18 functionality.

19 So instead of using a three-digit
20 revenue source code to represent that
21 relationship, you're actually just going to
22 give us a lease number and the appropriate
23 agreement number.

24 The other things that the PIF did
25 which is basically it set up the product code

1 you're going to be reporting. It also set up
2 your payment responsibility start and end
3 dates. Again, we're going to use the 2014 for
4 that.

5 Based on the product reported and the
6 sales monthly reported, our system will use
7 that start date and roll that forward as long
8 as you continue to report on that product, that
9 lease, that agreement. When you no longer
10 report on it, we're going to end date that
11 responsibility.

12 Because one of our concerns on the
13 Payor Information Form -- we've had quite a few
14 problems with that concept. I used to do a lot
15 of payor training. I met some of you at payor
16 training sessions. And we always covered how
17 to complete the Payor Information Form and what
18 a revenue source code was. That was
19 consistently confusing: confusing to you and
20 confusing for us.

21 So hopefully with this change rather
22 than have to submit that form ahead of time and
23 then start reporting, we'll eliminate that form
24 entirely. That's going to eliminate about -- I
25 think there's around 23,000PIFs that are

1 reported to us annually. It should help us and
2 it should help you, too.

3 Any comments on that Payor
4 Information Form?

5 MR. ANDERSON: Paula, Chester
6 Anderson with Conoco. How are we going to end
7 date if we don't have an end date now? What's
8 the period of time when you stop reporting
9 where you decide that -- where this is no
10 longer a valid date?

11 MS. NEUROTH: Did everybody hear his
12 question? His question is how will we know the
13 end date since we no longer have a PIF to send
14 in and say, "I'm no longer responsible for this
15 property."

16 What we're going to do, let's say I'm
17 a payor and I -- first time I report this
18 property is June 2001. We're going to set up
19 the start date in our system based on that 2014
20 line saying, "You're responsible as of June
21 2001."

22 We're going to end date that
23 responsibility -- this is the concept at least.
24 This is one concept. I'm not going to say it's
25 the only concept, but it's the one we've talked

1 about the most. As soon as I report that line
2 to MMS, it's going to automatically end date my
3 responsibility as of June 30, '99.

4 The next month if you report July
5 2001, it's going to roll that date forward. As
6 long as you continue to report, it will roll
7 that end date forward.

8 So you'll always be end-dated until
9 you report the next sales month. That way we
10 don't have to worry about finding out the end
11 date. We'll assume it's the end date until you
12 report the next month.

13 MR. ANDERSON: What if you have no
14 production one month for some reason, then what
15 problem does that cause?

16 MS. NEUROTH: Well, we talked about
17 that --

18 UNIDENTIFIED SPEAKER: What was the
19 question?

20 MS. NEUROTH: I'm sorry, he said what
21 if you have no production one month so you
22 don't report.

23 We have talked briefly about that,
24 and we don't know whether to actually record
25 that break in there and then just pick it up

1 again with the next sales month that you report
2 or exactly how we're going to link that. But
3 it really should not be that big a problem for
4 us, because we'll still use the 2014 sales date
5 to track that responsibility.

6 And hopefully we'll get a new
7 contractor on board, they will have some ideas
8 to help us out with a lot of these issues in
9 place, tell us what's actually the best way to
10 program it and to use it.

11 Okay. Anything else on that?

12 MS. VANDEVEN: I have one question.
13 Debbie Vandeven with Conoco. Now you have to
14 have the agreement set up in your system before
15 you would allow those lines to come into your
16 system.

17 Is this going to eliminate the
18 rejected lines that we get because the
19 information isn't in your system and we're not
20 sending the PIF in to notify you more up front?

21 MS. NEUROTH: No. Her question is
22 right now when you try to report an agreement
23 number that's not in our system, will the fact
24 that we're eliminating the PIF eliminate the
25 need to reject that line, basically. No, it

1 will not.

2 When you report the agreement number
3 on a 2014 document, we're still going to edit
4 that agreement number to make sure it's a valid
5 agreement number in our system.

6 So if BLM -- let's say it's an
7 onshore agreement. If BLM has not officially
8 approved that agreement and sent us
9 notification to set that up on our data base,
10 that 2014 line is still going to reject. It's
11 not going to reject because you have no PIF in,
12 it's going to reject because we don't have an
13 agreement number in our data base.

14 MS. VANDEVEN: So are you going to
15 call us or are you just going to assume that
16 it's your side that needs to do the work and
17 track it down that way?

18 MS. NEUROTH: She's asking are we
19 going to call you and request information on
20 that line, or are we going to assume that our
21 data base is incorrect and try to work it that
22 way.

23 I guess I'm not sure. I mean, it's
24 going to be a standardized ten-digit number
25 that you're reporting. So if you reported nine

1 digits, we're probably going to call you and
2 say, "You're missing a digit here. What's the
3 problem?"

4 If it looks like it's a valid
5 ten-digit number, I don't know whether our
6 first attempt would be to say to BLM, "This
7 company's trying to report this agreement
8 number. Do you have it in your holding that
9 you haven't sent to us?" Or are we still going
10 to call the company and say, "Are you sure you
11 gave us the right agreement number? We don't
12 recognize this agreement in our data base."

13 It will probably be a combination of
14 both. Just the fact that you report it, it
15 could have been a transposition error.

16 MS. VANDEVEN: Right.

17 MS. NEUROTH: So my feeling is we'll
18 probably call you and say, "Are you sure this
19 is the correct agreement number you sent in the
20 report?" Does that answer it?

21 MS. SISTRUNK: I'm Judy Sistrunk with
22 Seneca Resources. I was wondering if there was
23 like -- if you were trying to report a new
24 number, if there would be a column where you
25 could check, "Yes, I'm trying to report a new

1 number," which might save y'all some time
2 trying to figure out if we just made a mistake
3 or if it's actually new.

4 MS. NEUROTH: We hadn't thought about
5 that. She asked if we had thought about adding
6 a column that they could check that says it's a
7 new agreement, therefore we would know that it
8 wasn't a reporting error and to contact the
9 appropriate agency and ask for that
10 documentation. I hadn't thought about that.

11 MS. JONES: I'm Connie Jones with
12 Citation Oil & Gas. The end date is confusing
13 me. If we sold the property -- if we sell a
14 property and we stop reporting, that is our end
15 date. Right?

16 But say the new owner doesn't start
17 reporting for a whole month after. How are you
18 going to know who's responsible for that one
19 month? Now we physically end date the PIF so
20 that John knows. You know, we can say, "Well,
21 we told you that that was our end date, and we
22 told you who the new owner is." Now with the
23 new form, we wouldn't be doing that.

24 MS. NEUROTH: That is correct.
25 Although you would actually be amazed how many

1 companies never tell us the end date of the
2 properties.

3 I mean, we have numerous payor
4 responsibilities, probably hundreds open in our
5 data base because that exact situation, you
6 sold your property but the company never told
7 us to end date the responsibility.

8 So I'm not sure the PIF got as close
9 to that goal as maybe we would have wanted. If
10 whoever bought the property does not report it,
11 we're probably going to call and say, "Who did
12 you sell the property to?" Because we will
13 identify it as missing.

14 If no one is reporting and there is
15 production on the production side, it tells us
16 there's sales on that side. We run a
17 comparison which says there's sales over here
18 but no royalty reported, who should have been
19 reporting it.

20 Okay. The next concept I want to
21 touch a little bit on was reporting of net
22 adjustments. What I'm talking about there is
23 in today's environment when you report a
24 royalty line to us and then let's say six
25 months later you need to make an adjustment to

1 that line, you're required to reverse your
2 original line as accepted into our system, then
3 report an entirely new line.

4 Under the concept in the Federal
5 Register Notice, you would just report the net
6 difference of those lines, positive or
7 negative.

8 So in other words, if you originally
9 reported that you paid \$1,000 to us on a
10 particular line of data and you realize it
11 should have been \$900, you back out the line
12 for \$1,000, bring back an entirely new line for
13 \$900. This concept is only going to bring in a
14 net difference of negative \$100. So instead of
15 two lines to make an adjustment, you'll just
16 have the one. Comments on that?

17 MS. NORWOOD: BarbaraNorwood,
18 Citation.

19 THE REPORTER: I can't hear you.

20 MS. NORWOOD: BarbaraNorwood with
21 Citation Oil.

22 THE REPORTER: Say that again.

23 MS. NORWOOD: BarbaraNorwood with
24 Citation Oil & Gas.

25 MS. NEUROTH: BarbaraNorwood.

1 MS. NORWOOD: So you're saying we go
2 and put our first line in like we made a
3 payment, a royalty payment of \$1,000, and you
4 want to put in \$900 and I want to make an
5 adjustment to that line.

6 The old way we put in -- we actually
7 put it in and then put it on the second line.
8 We back out the first line, put in the second
9 line. So the new way we would not -- we would
10 just make the net adjustment?

11 MS. NEUROTH: Make the net
12 adjustment. So you would leave -- instead of
13 doing a two-line entry to reverse the original
14 line and a new entry to bring in the \$900, you
15 would just bring in a single line with a
16 negative \$100 entry or whatever value entry
17 that line represents change to.

18 MS. NORWOOD: And they would
19 (inaudible.)

20 THE REPORTER: And they would what?

21 MS. NORWOOD: Would they know what
22 we're doing up there when we send this report
23 in?

24 MS. NEUROTH: She's asking if we'll
25 know what you're doing. Sometimes we do. Keep

1 in mind that even though you're going to bring
2 in that negative \$100 entry, you're still going
3 to bring in what we call the key code
4 information, that being we have to have some
5 way to identify the line and match it to the
6 original line. So you're going to need to
7 report that lease number.

8 The agreement number happens to be
9 the agreement production. You're going to give
10 us the product code, the transaction code, and
11 the sales month. So we're going to match it to
12 the original line based on that key code
13 information.

14 So I mean, if for some reason your
15 adjustment line -- we couldn't find an original
16 line, then we have a problem. But you're not
17 going to bring in just a negative \$100 entry.
18 You're going to have the key code information,
19 too.

20 MS. KENT: Pat Kent with Exxon.
21 Something that we had talked about in one of
22 the COPAS meetings with you is that if you're
23 changing any of that key information, you still
24 have to do a back out and correct it. Because
25 that key information is changed so if you want

1 -- if you have reported it as product four and
2 you should have reported it as product three,
3 you're still going to have a two-line
4 adjustment. That's right up here, page 8837,
5 paragraph to the right.

6 MS. NEUROTH: Yeah, on page 8837
7 that's exactly the way it's stated, Pat. Yes,
8 uh-huh. In the adjustment to key coding the
9 information, there is no net adjustment here.
10 You could back out the original line and bring
11 in a new line. Wayne?

12 MR. PACHALL: Yeah, this is Wayne
13 Pachall with Texaco.

14 MS. NEUROTH: Wayne Pachall.

15 MR. PACHALL: (Inaudible.)

16 THE REPORTER: I didn't hear that
17 question.

18 MS. NEUROTH: Wayne.

19 MR. PACHALL: Now, my question
20 concerns making net adjustments that consist of
21 a volume adjustment in one direction and a
22 value adjustment in another direction. In
23 other words, you're increasing the number of
24 barrels you report, decreasing the value that
25 you report.

1 My question was how are you going to
2 edit that entry to see if it's a reasonable
3 adjustment? And to me it seems like you have
4 to build into your system or provide an edit to
5 check those entries.

6 MS. NEUROTH: I guess my answer would
7 be no, we haven't considered that, really.
8 Because based on the reporting changes, we're
9 going to have to analyze the way we edit these
10 lines as they're processed, and we really have
11 not gone into detail as far as trying to
12 analyze those edits yet because we don't have
13 data elements really confirmed. But we will
14 have to keep that in mind as we go through
15 that.

16 MS. CROWDER: I'm JanCrowder with
17 Texaco. I have a question on when we get to
18 this new accounting system, what happens to an
19 audit? Are there other adjustments you have to
20 go back or the old ones will have the same
21 information on. How will we adjust all of the
22 data in the system?

23 MS. NEUROTH: That is a big concern
24 to MMS is how we're going to convert the old
25 data or use the legacy data in the new system.

1 I don't have the answer to that.

2 When we go out to our vendors, our
3 five vendors that Milt mentioned, with our
4 request for proposal, that is one of the issues
5 that we've identified in there.

6 "Contractor, we have a large data
7 base of information, how do we handle this?
8 How do you convert and how do you access it?"
9 They are required to bring options to us as
10 part of their proposal on how we're going to do
11 that.

12 MR. SANT: Are you sure?

13 MS. NEUROTH: I'm hoping.

14 MR. SANT: Was anybody here in the
15 royalty business when we moved from the 936
16 form to the 2014? Hey, there we go. We
17 learned from that -- sort of that strategy that
18 this transition business and oil legacy data
19 and new data changed reporting formats. It is
20 quite challenging. And we will be working with
21 you to understand how to best do that, how best
22 to accomplish the transition.

23 As Paula mentioned, it's high on the
24 visibility screen for us, not just because it
25 can be complex, but because it can be expensive

1 for both of us on how we do it. And we want to
2 deal on both ends. We want to keep it as
3 simple as possible -- we can say that -- and as
4 inexpensive as possible for all of us.

5 So we'll be back on issues like this,
6 and we'll probably have by that time a vendor
7 in tow to understand this. Again, the vendors
8 we've looked at are focusing support on a
9 number of your systems. Hopefully that's going
10 to give us some leverage out there in
11 understanding how to best do this.

12 It's high on the radar screen for us
13 as a classic issue existence-wise and reporting
14 form-wise.

15 MS. VANDEVEN: DebbieVandeven with
16 Conoco. I think I can speak loud enough.
17 Royalty rate wasn't mentioned as a key field.
18 Right? That's one of the key fields that you
19 said to know if the adjustment was coming in
20 on.

21 MS. NEUROTH: That wasn't one I
22 mentioned, no.

23 MS. VANDEVEN: But is it?

24 MS. NEUROTH: I don't know.

25 MS. VANDEVEN: Okay, because my

1 question is, is I may have several leases
2 because of the reduced royalty rate filing
3 carrying different royalty rates and revenue
4 sources that distinguishes it now.

5 So how would they know which one of
6 those lines as a royalty rate wasn't part of
7 the key field I was trying to adjust to stick
8 the adjustment in?

9 MS. NEUROTH: Did everybody hear her
10 question okay? As you know, royalty rate is a
11 new element on the proposed 2014, so you will
12 be able to display data associated with that
13 line. Debbie's question is basically unless
14 that's part of the key-coding.

15 Let's say she has three lines, all of
16 them different royalty rates, how will they let
17 us know which adjustment attached to which
18 original line. She asked if I hadn't mentioned
19 royalty rate as one of the key code elements.

20 My answer is I don't know for sure.
21 Again, I think we're going to have to analyze
22 that, and when we have our final form set, make
23 sure we understand what changes require that
24 key code information and which ones don't.

25 MS. VANDEVEN: I just wanted to make

1 a of note that, that that's one of the
2 problems, and then also with the back off and
3 put back on that you had a sliding scale
4 property with the wrong royalty rate, and it
5 needed adjustment to the right royalty rate,
6 what would the net line -- I mean, what would
7 the new royalty rate show on the new line? How
8 would we do that kind of an adjustment? I just
9 wanted to bring that up.

10 MS. NEUROTH: That's a good point.

11 Anything else on net adjustments? Okay.

12 Allowances. As you have noticed on
13 our proposed form, we've added some columns to
14 account for transportation and processing
15 deductions. And basically what this does is
16 allow us to make some efficiency changes.

17 Because right now when you report an
18 original sales line and you've got a
19 transportation allowance and maybe you've got a
20 processing allowance, that requires three
21 separate lines of reporting on the 2014. And
22 basically we use those allowances to make
23 transportation -- processing and transportation
24 to the original sales line again through that
25 key code information down to the selling

1 arrangement level. So the selling arrangement
2 ties it back to the original royalty due line.

3 This change by adding the columns to
4 the 2014 allows us to eliminate two separate
5 lines of reporting. It also allows us to
6 easily attach those allowance deductions to the
7 royalty due lines. It's all right there as
8 part of the calculation.

9 We're estimating that -- I think our
10 estimate was 800,000 lines?

11 MR. BARDER: 800,000.

12 MS. NEUROTH: We've estimated that's
13 probably going to save around eight-hundred-,
14 nine-hundred thousand lines reporting to us
15 annually. Fewer lines for you to report, fewer
16 lines for us to process. Any questions on that
17 concept?

18 That was all I had before we start
19 through the 2014 data elements. Do you want to
20 take a quick break? Yes. Okay.

21 (Recess taken.)

22 MS. NEUROTH: Okay. We're going to
23 try this. Better? I don't know, this is my
24 last opportunity. Okay. Any follow-up
25 comments from the things we covered earlier?

1 Okay. What we're going to do now is
2 walk through the proposed 2014 data elements,
3 and I'm just going to give a brief description
4 of what the element is. And then if you have
5 comments on that element, how about you just
6 speak up at that point and we'll stop and
7 discuss it. Okay?

8 Payor name. Anybody object to giving
9 us your name? Yes? Just kidding. Okay.

10 Column two, payor code. Again,
11 that's the standard five-digit payor code that
12 you're use to using today and that basically
13 links the payor code to the payor information
14 in our system identifying your address, your
15 phone number, contact person. That's a
16 required field. We have to have that.

17 Three is the report -- the Indian
18 report indicator. Again, we're requiring a
19 separate report for Indian versus Federal
20 properties. We're not going to allow them to
21 be mixed. It's no change from what we do
22 today. We want a separate report for Indian,
23 and if it is an Indian report, we want it
24 identified and checked on this block.

25 Four is the payor assigned document

1 number. This is the information that you
2 identify and assign this number to both the
3 royalty document and to the associated payment
4 or payments. This is what enables us -- our
5 system to automatically match your payment to
6 the proper report. Yes, Pat?

7 MS. KENT: Pat Kent, from Exxon. I
8 want to go on record to say this is a
9 payor-assigned document number. We don't like
10 it when you assign certain numbers in there.
11 It messes up our system.

12 MS. NEUROTH: Got it.

13 MS. KENT: I know it's not your guys.
14 I probably need to be talking to the guys
15 upstairs.

16 MS. NEUROTH: Five is a line number.
17 Six is reserved for the payor's use and that's
18 where you can enter the property identifier or
19 well name, whatever you want to enter there.

20 The change here is that currently we
21 don't key that information as part of the
22 royalty line. In the proposed new system we
23 will actually key and retain that information
24 as part of royalty lines. When we have a
25 question, we can contact you and say line 29 of

1 your report XY&Z identifier, well number
2 federal 28-20 or something.

3 Seven, MMS lease number. This is the
4 ten-digit standardized MMS lease number. It's
5 not the agency-assigned number, by
6 agency-assigned number being the BLM number or
7 BIA number. We're not using those numbers.
8 We're using the standardized MMS lease number.

9 Eight is API well number. And as the
10 notice says, we're not going to well level
11 reporting. We're not indicating here that we
12 want well level reporting. We're developing it
13 as an option that may need to be used for
14 certain reporting situations in the future.
15 We're trying to build that flexibility into our
16 system.

17 Nine, MMS agreement number. Again, a
18 standardized ten-digit number. For both the
19 MMS lease number and the agreement number, we
20 are proposing also to make that available to
21 companies via the Internet or by calling us,
22 one of the two.

23 Because right now we give you that
24 information when we turn back the payor
25 information form data to you. Since we won't

1 have a PIF, we'll have to be able to provide
2 that some other way to you.

3 Ten is the product code. Again, it's
4 not any different than what you are used to
5 using today except we have added some product
6 codes for geothermal.

7 Eleven, API gravity. Basically
8 required when you report certain oil product
9 codes to us.

10 Twelve is valuation code and I am
11 going to stop here and let John or Theresa
12 speak to this issue.

13 MS. BAYANI: The valuation code, what
14 we're proposing is to have this be a required
15 code. And the purpose of this code is to
16 provide a tool in order for us to do product
17 valuation monitoring. And in using this tool,
18 we intend to test the reasonableness of a
19 reported price.

20 This valuation code would include the
21 nature of the sale meaning the arm's-length
22 versus non-arm's-length situation and the
23 contract type.

24 We have revised it for some of you
25 that met with us and COPAS. We have revised it

1 as a result of the feedback. And we are now
2 proposing for oil and gas three different types
3 of valuation codes, and they include first of
4 all the spot market. They are arm's-length or
5 non-arm's-length spot market. And this would
6 be 30 days or less and would be tied to the
7 spot market price.

8 The other would be a long-term
9 contract, and this would be 30 days or greater,
10 and it would be a situation where it would not
11 be tied to the spot market price or say a
12 non-index price.

13 And the third valuation code would be
14 a percentage of proceeds contract and again
15 arm's-length versus non-arm's-length.

16 We also are proposing and looking at
17 some valuation codes for geothermal, and those
18 include looking at a net back valuation code
19 and an alternative fuel.

20 Are there any comments related to
21 valuation code?

22 MR. ANDERSON: What if on a
23 particular lease you're selling both spot
24 market and long-term contract?

25 MS. BAYANI: The question is -- can

1 you hear me? The question is what if on a
2 particular lease you have both arm's-length --
3 or excuse me, spot and long-term, what you
4 would need to do is you would need to report
5 that information on two different lines?

6 You would need to report -- if say,
7 for example, they were both arm's-length, you'd
8 report an arm's-length spot and an arm's-length
9 long term. Any other questions related to
10 valuation code?

11 Again, this code would only be to
12 test the reasonableness of a reported price.
13 What we would do or are thinking about doing
14 with this code is we would have a tolerance or
15 a range, and in a particular area if your price
16 fell outside the range, it would mean it
17 wouldn't -- it would appear to be unreasonable
18 but that doesn't necessarily mean it isn't the
19 price for royalty purposes. We would basically
20 target our resources to that situation in
21 determining whether or not indeed it was the
22 value for royalty purposes. Question?

23 MR. LYNCH: Don Lynch with Texaco.
24 How are you proposing to look into (inaudible).

25 THE REPORTER: I can't hear you.

1 MS. BAYANI: The question is how
2 would you intend to determine -- after you've
3 determined it's unreasonable, how would you
4 gather the information to determine if indeed
5 it was reasonable or not. Is that --

6 MR. LYNCH: Yes.

7 MS. BAYANI: -- your question? What
8 we would do, okay, for example, if it fell
9 outside a particular tolerance or range, we
10 would then -- what we would probably do -- I
11 mean, we haven't got all of the steps lined up,
12 but the procedure might include contacting the
13 company and determining exactly if it were a
14 long-term contract, what type of situation was
15 involved, was exchange going on, and if we
16 needed to get some of the source data, we might
17 attempt to at that time. Not every single case
18 would turn into a full-blown audit. I don't
19 anticipate that.

20 MR. LYNCH: Is there going to be
21 closure on those prices, then, after you look
22 at it?

23 MS. BAYANI: The question is would
24 there be closure after the situation that we've
25 investigated.

1 I think that would be dependent on
2 how far we investigated and if it turned into
3 an audit. Again, we need to develop those
4 procedures and determine at what point closure
5 occurs. Yes.

6 MS. KENT: Pat Kent, Exxon. Much of
7 the gas business now is done on a pooling basis
8 where we do not know specifically what gas came
9 from which lease and which went to which
10 purchaser. It goes into a pool and goes from
11 there to multiple purchasers.

12 Is there a possibility of having a
13 code set up, a valuation code here set up that
14 says there is pooling where there is no
15 physical tracking from contract or lease to
16 contract?

17 MS. BAYANI: The question is now
18 today there's a lot of pooling situations, and
19 so are there any plans to look at or consider a
20 code that would label it pooling so that you
21 wouldn't have to fall into some other valuation
22 codes, one code for pooling. Is that --

23 MS. KENT: (Nods head.)

24 MS. BAYANI: -- your question? Well,
25 the intent of the valuation code is also to

1 identify the nature of the sale, meaning
2 whether it was an arm's-length situation or
3 non-arm's-length situation, and the contract
4 type. And in pooling there could be a variety
5 of contract types.

6 So for a pooling situation what the
7 intent of the valuation code -- what we have to
8 report on the proposal anyway, you would have
9 to differentiate between an arm's-length and
10 non-arm's-length and whether it was long or
11 spot.

12 You would roll it all together,
13 though. I mean, for example, if you had
14 multiple long-term contracts arm's-length, you
15 would roll all that together in one lump for
16 that particular property.

17 MS. KENT: But I would be arbitrarily
18 allocating sales out of a pool of multiple
19 leases that they may or may not.

20 MS. BAYANI: It would be weighted
21 average prices, yes, that you would report
22 because you do have to allocate back. But we
23 would ask at that level of arm's-length versus
24 non-arm's-length and the contract type. Are
25 there any other questions related to valuation

1 code?

2 MR. ANDERSON: Do you do that when
3 you have both?

4 MS. BAYANI: When you have both what?

5 MR. ANDERSON: When you have both
6 situations.

7 MS. BAYANI: You have both
8 situations, arm's-length and non-arm's-length?

9 MR. ANDERSON: And short term and
10 spot.

11 MS. BAYANI: Well, you have to
12 allocate it back to the percent -- between
13 allocation you have a weighted average price,
14 but you have to report what percentage of that
15 was under the arm's-length situation or the
16 non-arm's-length.

17 It's a weighted average price, yes,
18 but you would have to differentiate. And those
19 are the rules. When you take the royalty, too,
20 you need to differentiate between the
21 arm's-length and the non-arm's-length.

22 It is a difficult task. I'm not
23 going to say it's simple, but it's something
24 that in order to report the values for royalty
25 purposes you need to know what percentages were

1 under the arm's-length situation or
2 non-arm's-length.

3 Are there any other questions related
4 to valuation? As you can see, we have narrowed
5 them down some. Before, we had some other
6 codes involved. We were looking at including a
7 coalbed and keep-whole and exchange. And we've
8 had a meeting with COPAS a while back and got
9 some feedback and did determine that we would
10 take another look at it, and we did modify it
11 as a result of those comments. Any other
12 comments? Paula.

13 MS. NEUROTH: Okay. Next code is
14 column 13, sales month and year. Really no
15 change there from what we currently report
16 today.

17 Fourteen is transaction code. No
18 major changes here except we hope to reduce the
19 number of transaction codes that we currently
20 have. And obviously if we move the allowances
21 up to the royalty line at least two transaction
22 codes would be eliminated because we won't have
23 to identify the separate lines. It will be
24 part of the one line transaction royalty due
25 line. We'll also look at all the transaction

1 codes and see if we can't simplify those a
2 little bit more.

3 Fifteen is adjustment reason code.
4 Again, we want to simplify these codes, reduce
5 the number of codes that we have, but we still
6 feel like we need to retain that flexibility in
7 our system to use adjustment reason codes for
8 various reporting scenarios.

9 History has proven that new
10 initiatives come down the pipe, new legislation
11 is enacted that requires us to track certain
12 situations, and the adjustment reason code
13 allows us to do that relatively easily.

14 Sales volume. Again, this is
15 basically no different than what you give us on
16 sales volume today. It's the MCF, barrels,
17 gallons, long tons, kilowatt-hours. It's the
18 volume on which you are basing your royalty
19 payment.

20 Seventeen is gasMMBtu. As you
21 notice there it's for certain product codes.
22 We would like you to report theMMBtu content.

23 MMS will use that data along with
24 column 16 for MCF to calculate the BTU content
25 of the gas product you're reporting. It got

1 awful quiet on me.

2 MR. ANDERSON: Question on that.

3 MS. NEUROTH: Okay.

4 MR. ANDERSON: Chester Anderson with
5 Conoco. When you're comparing back to the
6 production reports and you're reporting at a
7 well level forMMBtus, and here it's pooled so
8 you have a differentMMBtu, how are you going
9 to reconcile that difference?

10 MS. NEUROTH: You guys might have to
11 help me with this one but basically on the
12 production side you report it under MCF. So
13 here we're also going to have MCF.

14 If it's gas, you're always going to
15 have MCF in column 16, and we're going to have
16 MMBtu in column 17. So we'll have the MCF
17 compared to the production side.

18 MR. ANDERSON: So you're just
19 comparingMCFs?

20 MS. NEUROTH: We're just comparing
21 MCFs.

22 MR. ANDERSON: Okay.

23 MR. BARDER: By having those two
24 volumes, the MCF volume and theMMBtu volume,
25 we can -- instead of having to report the Btu

1 content of your gas, we can do the calculation
2 with those two volumes and come up with the Btu
3 content.

4 It just gives us another tool, I
5 guess, to check Btu content that we calculate
6 with possibly Btu content on your sales slips
7 or your invoices when you're actually selling
8 gas.

9 MR. ANDERSON: Yeah, but thisMMBtu
10 is going to be an average.

11 MR. BARDER: Well, I think you
12 misunderstand a little bit. The volume is
13 going to be represented inMMBtu. It's not a
14 -- I think you might be thinking of a Btu
15 content where Btu is a cubic foot and it
16 reflects the volume of your gas.

17 What this volume that we're asking
18 you to report on anMMBtu basis is a volume
19 that has the quality measurement already built
20 in. It's a volume based on the quality and the
21 MCF volume of your gas.

22 So we're talking about a volume not a
23 quality measurement in the column -- what is it
24 -- 17. But with those two volume measurements,
25 the Btu volume and the MTF volume, just by

1 dividing one by the other, multiplying by
2 1,000, we can come up with Btu content.

3 MR. ANDERSON: Yeah, I understand
4 that piece, but I'm saying if you go back on an
5 individual well the way it's reported, the Btu
6 content will be different even though --
7 because you're doing it with an average.

8 You're taking an MCF volume and then
9 you're dividing by the MMBtu content to get an
10 MMBtu value, and you're going to use that back
11 on every lease when it could be different.

12 MR. BARDER: The Btu content will be
13 -- the average Btu content is based on the
14 total production that left the lease on the
15 agreement. Yes. I think if I understand you
16 correctly, I believe you're correct.

17 MS. NEUROTH: Let me see if I can
18 understand this, too. We are comparing sales
19 from a 2014 sales production report that is not
20 at a well-by-well basis. It's total sales off
21 the production report to total sales reported
22 on the 2014s. It's not well by well.

23 MR. ANDERSON: Okay.

24 MR. BARDER: And the Btu content can
25 be well by well, but normally you're going to

1 average that together on a property basis or
2 even I guess on an agreement basis. So I think
3 I understand what you're saying but we're
4 getting tied up in semantics here.

5 MR. SANT: If you have the pool of
6 gas, the MMBtu, though, relates not to the pool
7 of gas, it relates back to the gas that came
8 off of the particular facility measurement
9 points. That's what these numbers are or is it
10 the MMBtu after it's pooled?

11 MR. BARDER: No, the MMBtu volume
12 should reflect the MCF volume that left the
13 lease or the agreement multiplied by the Btu
14 content at the royalty settlement point for the
15 lease or the agreement.

16 In other words, the MMBtu volume
17 should be basically the corrected MCF volume
18 that left the lease or the agreement and
19 correct it for the Btu content.

20 All we're doing, instead of having
21 you report the Btu content and the MCF volume,
22 now we're asking you to report the MCF volume
23 and the MMBtu volume so we can calculate the
24 Btu content. That's the only change is a very
25 slight change.

1 We're just asking you to report a
2 little bit different. And one of the main
3 reasons is, is because we have trouble getting
4 industry to report the Btu content properly.
5 Sometimes we don't see any Btu content reported
6 on a 2014. Sometimes we see, say, for gas just
7 a straight 1,000, you know, we just have a lot
8 of problems with that. This is the way that we
9 think we might be able to correct some of that
10 by having the volume reported in MCF and
11 MMBtu's.

12 One of the reasons, of course, is you
13 do all of your sales for gas or I would say 99
14 percent of your sales of gas, and your
15 contracts are based on the dollar for MMBtu
16 basis. However, all of the measurements done
17 at the lease of the agreement is measured on an
18 MCF basis.

19 Again, this is a way to hopefully
20 correct the problem of Btu content reporting
21 without having you to report really any
22 additional information, just reporting it a
23 little bit differently. Are there any other
24 questions on that?

25 MS. NEUROTH: Okay, 18, the royalty

1 rate. So we want you to display the royalty
2 rate you used to calculate this line of
3 reporting.

4 Throughout this notice, too, you're
5 going to see that we have identified those data
6 elements that are required for us to display to
7 our revenue recipients on what we call the EOP,
8 explanation of payment. Those are legal
9 requirements established through law that we
10 have to provide this data to, try to identify
11 those data elements in this notice to you.

12 Nineteen is unit price. Again, I
13 think it's Theresa mentioned we understand that
14 this in most cases will be a weighted average
15 price representing many sales that have
16 occurred during that month. Comments?

17 Twenty is royalty value prior to
18 allowances. So that represents the volume that
19 you reported to us times the royalty rate times
20 this unit price to come up with the royalty
21 value prior to allowances. So it's basically a
22 formula we're using for those columns.

23 Twenty-one is transportation
24 deduction for the dollar amount that you're
25 reducing your royalty payment to us by for this

1 allowance. Again, this replaces the old
2 separate transaction that you used to report
3 transportation deduction on.

4 Twenty-two, processing deduction.
5 Again, this replaces that separate line of
6 reporting where you used to give us the
7 processing deduction. Now it's all rolled up
8 into one line of reporting.

9 MS. VANDEVEN: I have a question.
10 Debbie Vandeven with Conoco. Are you going to
11 build any kind of edit checks that if we say
12 it's a non-arm's-length and it's got a
13 processing deduction to check for allowance
14 rates that we filed? Are you going to go to
15 that length in the future?

16 MS. NEUROTH: I don't anticipate us
17 doing that as part of the royalty up-front data
18 checks. Keep in mind again that on federal
19 properties they're not filing allowance forms
20 now. Correct?

21 MR. BARDER: Right. There might be
22 an exception check, though. Do you remember?

23 MS. NEUROTH: John is asking us
24 whether we do a check for exceeding the limits.
25 My personal feeling on this -- and I'm just

1 speaking from some of the meetings I've
2 attended, I certainly don't have a final
3 decision on this -- is that it's not something
4 that would be edited up front as we process the
5 royalty line. It probably would be looked at
6 as part of a downstream compliance and asset
7 management process, not as part of the editing.
8 Anything else on that, Debbie?

9 MS. VANDEVEN: No. I just wanted to
10 know if that was a possibility.

11 MS. NEUROTH: Okay. So 23 is the
12 royalty value less allowances that represents
13 the payment for that line of reporting.

14 Column 24 is the payment method.
15 Again, here we're going to reduce the number of
16 payment method codes we use, but we felt like
17 we needed to retain them in certain situations.
18 It drives some of our processing. And we also
19 heard from several companies, we had various
20 outreach meetings, that they would like us to
21 retain payment method codes because it drives
22 the processing in their system, also.

23 At the bottom of the proposed 2014,
24 the left-hand corner, you have a report control
25 block which on the current form you also have a

1 report control block but this one contains
2 different information.

3 If you'll notice, it has a place
4 identified for available credits that you want
5 to apply to this current royalty document. And
6 as the notice explains, those credits are
7 created in our system for a variety of reasons.
8 It basically represents money available to you
9 to pay current obligations.

10 And right now for the most part it's
11 a very labor-intensive process, which we might
12 probably be calling you and say, "You have a
13 \$150 credit sitting in our system, how do you
14 want to use that credit?" And in a lot of
15 cases you'll say, "Oh, I want to use it to
16 apply against my next month's royalty
17 document," which is fine and dandy, but when
18 that comes in, it's actually a manual process
19 to move that payment to the current royalty
20 document.

21 What we're hoping in the future is
22 that we can identify those credits on this
23 document. Our system will automatically
24 reapply that available cash to this royalty
25 document.

1 And again, one of the other concepts
2 is we want to give you the access to your
3 royalty, production, and payment information
4 via the Internet. So you would be able to go
5 in and look in your account and see what
6 credits you have available. You can identify
7 them then on this document. Our system
8 automatically applies them.

9 MR. MYERS: Glenn Myers, Texaco. You
10 have a place to list the credits but how about
11 an additional payment we make, G-bills,
12 etcetera? Would we have to pay those
13 separately now?

14 What I currently do is I take -- if I
15 have a credit, just deduct it from my payment;
16 if I have a debit, I add it in.

17 MS. NEUROTH: I'm not sure. You mean
18 that you have a bill that you're reporting on
19 this document?

20 MR. MYERS: Well, I have a bill.
21 It's not reported on the document, but my total
22 payment is adjusted by that bill either up or
23 down, the way we currently handle it.

24 It's like you're saying here you can
25 take the credit and list it. Well, we do that

1 now, there's no place to list it. We owe you a
2 million dollars and we have a thousand dollar
3 credit; we pay you a million less the thousand
4 dollars. So the report total is going to be
5 higher than the payment you receive. And like
6 you say, it's labor-intensive to match it up by
7 doing that now.

8 The same way with a debit. I owe you
9 a thousand dollars so I pay you a million, a
10 thousand. The report will only show a million
11 dollars.

12 MS. NEUROTH: So where are you
13 reporting the lines that represent the other
14 thousand?

15 MR. MYERS: We don't report them. I
16 mean, it's like the G-bill.

17 MS. NEUROTH: But you're not -- I
18 guess my first response -- and I have to think
19 about this for a little bit -- is that we
20 wouldn't want you to add that additional amount
21 to this royalty document.

22 MR. MYERS: We do it on a monthly
23 basis and have no problem with it.

24 MS. NEUROTH: Really?

25 MR. MYERS: They recognize -- if the

1 report total and the wire transfer is

2 different, they just look for --

3 MS. NEUROTH: But they're not

4 applying that additional thousand dollars to

5 your royalty document. You're right. They're

6 looking for a place to apply that thousand

7 dollars.

8 They're looking at your open

9 receivables and saying, "Where do we think he

10 intends to apply this thousand dollars?" But

11 it's not related to your current royalty

12 document.

13 MR. MYERS: Right.

14 MS. NEUROTH: We don't want it

15 applied there. And I don't think in the future

16 we would want to indicate a place here for you

17 to apply it, because we don't want you to apply

18 it to this receivable. We want you to apply it

19 to the G-bill.

20 MR. MYERS: So the credits that are

21 shown on here aren't for credit G-bills or --

22 MS. NEUROTH: Yes, they can be.

23 MR. MYERS: They can be?

24 MS. NEUROTH: Any credit that exists

25 in our system basically creates a payment that

1 is available to you for whatever receivable you
2 want to use it. You can use it to pay another
3 bill, but in most cases companies say, "Oh,
4 I'll just use it to pay my next 2014."

5 All we're saying is that if that is
6 your option, we want you to identify it on this
7 2014 on this receivable, and we will apply that
8 payment to the receivable.

9 But if you send in extra money that
10 applies to different receivables, you probably
11 do not want it identified here because it does
12 not apply to this receivable. It applies to
13 another receivable, G-bill or the I-bill, my
14 guess, my thoughts on it.

15 MR. MYERS: Well, the credit does,
16 too.

17 MS. NEUROTH: But the credit --

18 MR. MYERS: So what's the difference?

19 MS. NEUROTH: But the credit once --
20 let's say it applies to the G-bill. Once that
21 credit is unapplied to the G-bill, it no longer
22 retains that identity to the G-bill. It's
23 available as cash to use. It may have
24 generated some receivable G-bill, but it's no
25 longer tied to that. It's available cash.

1 We've got a recording. We'll keep
2 that in mind.

3 MR. MYERS: Right. I'm just not
4 seeing why we couldn't also make an initial
5 payment for a G-bill on here, also, rather than
6 have to issue a separate check or additional
7 wire.

8 MR. ANDERSON: I guess the question
9 would be if you can put a document number on
10 there that pertains to a G-bill, why couldn't
11 you also put that on there as easily?

12 So you could have document numbers
13 for G-bills, I-bills, credits, and everything
14 on this one document, so therefore you only
15 have to make one payment to MMS rather than
16 various payments.

17 MS. NEUROTH: But I guess I'm not
18 saying that this will cause you to make
19 additional payments. You could still send us,
20 you know, one wire transfer; and in the
21 identifier information, you're going to give us
22 the unique receivable number that applies to
23 that million dollars. So that tells us to
24 apply a thousand dollars to this G-bill, the
25 other million to the 2014 based on the 3A

1 number -- I'm saying 3A, it's now identified as
2 4 on here.

3 But you can identify multiple
4 receivables on your wire transfer today. It
5 does not need to be identified to this 2014
6 document.

7 MR. MYERS: Currently we don't. I
8 mean, all we --

9 MS. NEUROTH: We need to talk to you.

10 MR. MYERS: All we're doing is
11 sending in the wire transfer with the current
12 document number on it either plus or minus the
13 G-bill.

14 MS. NEUROTH: Okay.

15 MR. MYERS: And they handle it
16 internally. It's a common practice. No notes
17 because it's a wire. It's a wire.

18 MS. SISTRUNK: We do a wire and then
19 we just Fed-Ex a copy of the 2014. They're not
20 that big. And then we have a copy of like the
21 first page of the G-bill with a note saying we
22 either took the credit for instance or we paid
23 the additional.

24 MR. MYERS: Ours is entirely
25 electronic. 2014 fed on tape, wire, so there's

1 no exchange of any documents.

2 MS. NEUROTH: And I agree with what
3 he's saying. All I'm saying is on your wire
4 message you probably need to identify the
5 individual receivables in the amount that
6 you're going to be paid uniquely on that wire
7 transfer message.

8 Even though you may be doing it that
9 way today, it actually works better if we
10 identified it separately.

11 MR. MYERS: Okay. I'll speak with
12 the person I have contact with on that.

13 MS. KENT: Pat Kent. Follow-up on
14 that question. We have lines that we need to
15 report. You know you've got your
16 compliance people, I guess, send us the little
17 green form. We just add it to our next report.
18 And so in that case we would want a block on
19 here to say the line is up in the EDI transfer
20 in the EDI report that I'm sending you, but I
21 also need to tell you that that's there and
22 that it is associated with, I don't know, an
23 I-bill maybe. I don't know what my bill
24 numbers are.

25 But if it's maybe an Indian

1 recoupement or an unauthorizedrecoupement or
2 something that I'm paying back, but I do have
3 to report the line and it's up there in my EDI,
4 so like a block there to be able to identify
5 that.

6 MS. NEUROTH: Okay, Milt, do you want
7 to say anything about the compliance asset
8 management process? The only reason I'm asking
9 is because Pat basically is talking about the
10 way we currently do business with our separate
11 billing actions. Do we want to say anything
12 about our concept in here? It's up to you.

13 MS. KENT: Our concept is you're
14 going accept our 2014s as correct, right, so
15 there won't be any of these bills?

16 MR. DIAL: One of our objectives in
17 terms of future business processes is to avoid
18 much of what we do today in terms of the timing
19 of when issues are presented to you on where we
20 think there's a problem with the royalty
21 payment.

22 To the maximum extent possible we're
23 trying to address those issues at one time with
24 one group of people. And hence the notion
25 compliance and asset management and that this

1 would occur very rapidly after the royalty
2 payment is actually made.

3 Now we have sort of a compliance
4 process that stops and starts. It begins
5 within a month or two after the submitted
6 report, and it ends six, ten -- Wayne told me
7 18 years after the fact. We don't want that
8 for a future business process.

9 We want things to happen within three
10 years or less of the royalty payment due date.
11 In doing that, in making that a reality, you're
12 going to see a very different relationship
13 process-wise in terms of how MMS engages with
14 the industry and sorts out the royalty payment
15 issues.

16 We would like to collect all those
17 issues at one time and present them as an issue
18 at that time and resolve issues. I mean, we're
19 not going to have a bill and then figure out
20 what bills we would like to resolve issues or
21 at least take out the issues.

22 The apparent issues that aren't
23 issues that are just issues of fact of --
24 disconnect on facts and get down to what really
25 is an issue. Before there would ever be

1 something that would be recognized as a bill,
2 but at that point in time we would generate
3 what you would recognize as a bill, a
4 collection.

5 In response to that would we have a
6 green 2014 type of an arrangement and a green
7 2014 over the years. We anticipate those
8 wouldn't exist, that would be much more
9 streamlined in approaching an electronic
10 approach to resolving issues.

11 We think most issues are going to get
12 resolved early on and get resolved by you in
13 terms of presenting the facts and clarifying
14 what the issues are or saying, "Yes, I see what
15 you mean," and take corrective action.

16 We would rather not engage in --
17 you're over there, Pat, and I'm over here, and
18 I will send something through the porthole to
19 you, and then we will have that communication
20 mechanism back and forth, back and forth on
21 various and sundry issues of various and sundry
22 periods of time over the years. We'd rather
23 not have -- that not be the future approach in
24 doing business.

25 In terms of information technology

1 and electronically how we might be able to do
2 that, I think we have some interesting
3 opportunities and challenges there, and they're
4 areas that we're wanting to work with our
5 industry partners, with COPAS, on how we can
6 best do that.

7 We have some electronic bulletin
8 boards that are being put up now. We just
9 started the experimentation with our business
10 partners. How do we do this? We actually do
11 this -- I think it's up to us to work out the
12 best way to do it. So does that help?

13 MS. KENT: So I'm not getting
14 any more bills. Great.

15 MR. DIAL: Not the kind you've seen.

16 MR. SANT: Well, I don't know if I
17 totally understand the question or not, but I
18 think it is -- if they have some type of bill
19 and in the past it would be sort of assessments
20 for erroneous reporting, in the future it could
21 be assessments for chronic reporting; is there
22 any way just to make the one monthly electronic
23 funds transfer to include everything, all the
24 credits that a company has and all the payments
25 that a company owes and somehow reflect it on

1 this EDI report? Is that a fair assessment?

2 And so they just have one electronic funds

3 transfer and somehow it gets all attached to

4 the credits or debits or 2014 line, and they

5 just do it once a month.

6 MR. ANDERSON: I thought the answer

7 to that was yes, as long as we identified --

8 MS. NEUROTH: Yes.

9 MR. ANDERSON: -- the documents.

10 MS. NEUROTH: That happens today.

11 That's exactly the way it is today. On your

12 large transfer message, you can identify any

13 number of receivable documents. Those

14 receivable documents being bills, 2014s --

15 numerous 2014s.

16 As long as you identify in the

17 message, "I want to apply a million dollars to

18 this 3A number today" -- it's currently on 3A

19 -- "I want to apply \$3,000 to this G-bill," and

20 give us the G-bill number; "I want to apply

21 20,000 to a bill," which is an allowance bill.

22 As long as you identify those in your

23 wire message, it will be applied to those

24 receivables today.

25 MS. KENT: The problem I'm having

1 with that, I understood that with the credits,
2 but with the debits, what I'm actually sending
3 you a 2014 line on my 3A number here, I cannot
4 double count it on the wire transfer. I can
5 only say that that \$100 was either this 3A
6 number or this A-bill?

7 MS. NEUROTH: Right.

8 MS. KENT: And so I do -- what I have
9 my people do is I just have them call Crystal
10 Tobar in the Cash Applications Group and say,
11 "My wire transfer this month and my document
12 this month includes this amount of money which
13 is tied to this bill number."

14 But it would just be much nicer if
15 when I send in my transmittal document that
16 accompany -- doesn't accompany but I fax in a
17 transmittal document at the same time I send in
18 my EDI, and I send that and it says, "This is
19 my 3A number, this is my amount." And if I
20 could just add another line on here that says,
21 "Included in here is this bill, also."

22 MS. NEUROTH: On your transmittal
23 document you're talking about there?

24 MS. KENT: (Nods head.)

25 MS. NEUROTH: And I would think for

1 people who are not doing EDI or for people who
2 are not doing electronic commerce somewhere on
3 the face of the document you can do that, also.
4 Because they wouldn't have a transmittal
5 document on those.

6 MS. KENT: And I would love to see us
7 get to a point where all these things are
8 worked out the same month I send in my 2014,
9 but I don't think that's going to happen in
10 2001. I think we need to build in something to
11 allow for that.

12 MR. SANT: Well, and since we're
13 going to require electronic commerce from
14 everybody in about a year, that's probably
15 something we need on the agenda there.

16 MS. KENT: When do you expect to have
17 electronic commerce packages on the 2014 that
18 actually show us what the reporting will look
19 like on an electronic basis?

20 I've noticed several places where
21 we've said to leave things blank or to check
22 them. Well, that doesn't work really well in
23 my computer.

24 MS. NEUROTH: I think on the current
25 proposal nothing says check other than maybe

1 the Indian indicator.

2 Our goal is to get the reporting
3 requirements out to the industry 12 to 18
4 months prior to our implementation date. Our
5 implementation date is scheduled for September
6 30, 2001, and that's why we're trying to set
7 the reporting format through this notice and
8 through these meetings.

9 Hopefully we get the final set by
10 July/August time frame. At that point you'll
11 know what the data elements are and how to
12 start programming your system.

13 That's all the data elements. A
14 couple more items in the Federal Register
15 Notice: One is agreement level reporting.
16 Agreement level reporting has been a concept
17 that's been discussed at MMS and with industry
18 probably for several years.

19 Basically we're just asking for
20 comments here about your feelings on this
21 issue. Is it something you want us to pursue
22 based on what we've outlined as both benefits
23 and maybe problems in doing that agreement
24 level reporting? Does anyone have any comments
25 on that concept? You can put it in your

1 written comments to us.

2 The last item was report format and
3 presentation. Again, realizing that our goal
4 is electronic reporting, the actual form layout
5 itself is maybe certainly not as important as
6 it was several years ago when everyone was
7 reporting on a paper document to us.

8 But again, we're just saying for
9 those situations, those remaining areas where
10 you might be reporting a hard copy document to
11 us, do you have a preference on the form
12 layout?

13 Most of the verbal comments that I've
14 received over the last six months or so have
15 been pretty well split 50-50. Some like the
16 stand-up version; the other 50 percent like the
17 landscape version.

18 Okay. I think that was everything I
19 -- anything else I needed to cover, Milt, or
20 that you would like to address, Theresa or
21 John?

22 MR. DIAL: This wasn't in the notice
23 but it's a question we've asked from time to
24 time and it's on courtesy notices. We send out
25 lots of them, tens of thousands of them. Are

1 those of value to you? Do you use that?

2 I mean, one of the proposals that's
3 out there is to go 100 percent courtesy notices
4 on all rental style payments on all leases or
5 to not have courtesy notices any longer and
6 just have rents paid straight away on 2014s
7 without courtesy notice submission. Do you
8 have any reaction one way or another on that?

9 UNIDENTIFIED SPEAKER: I don't even
10 know what a courtesy notice is.

11 MS. NEUROTH: I'm sorry, what?

12 MR. DIAL: The question was he wasn't
13 sure what a courtesy notice was.

14 MS. NEUROTH: The courtesy notice is
15 just a document that we send out to the
16 industry saying you have a lease that is
17 subject to annual rental payments, and it's
18 basically a reminder, a courtesy notice that
19 that rental is coming due.

20 We basically use it in our terminable
21 rents, our terminable leases, those leases that
22 will automatically terminate if you do not make
23 the rental payment by the due date.

24 It's something that has existed for
25 many, many years. It was started back with the

1 USGS days, and it really is just a courtesy
2 notice saying you have a rent, \$600 due. We
3 normally send them out like 60 or 75 days prior
4 to the due date, and you submit that back with
5 your payment.

6 MR. MYERS: The reason we don't know
7 anything about it, it's not at our Denver and
8 New Orleans office currently, so we're not
9 involved with it.

10 MS. VANDEVEN: Were you asking about
11 continuing them or discontinuing them? I think
12 that's what we usually base our payment off of
13 for the most part is whenever they get the
14 courtesy notice, then they probably send it in.
15 Because I know they've talked about it. And
16 it's in a different group than what we're in.

17 MS. NEUROTH: Probably in most cases
18 those are going to the land departments.

19 MR. ANDERSON: Paula, one question on
20 payment methods. On offshore where you take
21 in-kind and we report the volumes on say an O1
22 line as take in-kind as one payment method, and
23 then we're billing you for transportation which
24 is a different payment method, how would we
25 report this in this scenario?

1 MS. NEUROTH: This question is on
2 royalty in-kind leases, that they report that
3 as a separate transaction code to us, and then
4 they also claim a transportation allowance for
5 that in-value.

6 MR. ANDERSON: Right.

7 MS. NEUROTH: My concept would be we
8 still want you to identify that transaction as
9 royalty in-kind.

10 We have a transaction code for that,
11 and we have a payment method code for that.
12 But since the transportation is in-value and
13 cash deduction, what we might have to have you
14 do is report a separate line for that. Since
15 it's cash you want to -- you want to reduce
16 your royalty payment basically by that cash
17 amount.

18 If you put it as part of the RIK
19 line, you would not be able to do that. I'm
20 just speaking off the top of my head because we
21 have not discussed this really at MMS yet, but
22 I can't really envision a way to make part of
23 that the RIK line. I think it's going to have
24 to be a separate transaction somehow. We need
25 to work on that. Don has something he wants to

1 tell me. Go ahead, Don.

2 MR. SANT: I think he could treat it
3 the same way as a deduction from the other
4 payments.

5 MS. NEUROTH: But it's part of the
6 royalty line on the proposal. It's all added
7 into that final column that says the net amount
8 due to us. That's an RIK amount due to us. So
9 how are they going to deduct that cash?

10 MR. SANT: If you bill the gross
11 amount to the small refiner, the purchaser,
12 whoever receives the RIK, and then this line
13 just deducts from the royalty totals from the
14 in-value lines.

15 MS. NEUROTH: Possibly. Okay.

16 MR. SANT: I think there's a way you
17 can get a smart enough computer to do that.

18 MS. NEUROTH: Get a computer to do
19 that, yes. One of many areas we need to think
20 about.

21 MR. ANDERSON: Just how we do it is
22 the question, because now you have two
23 different lines so you can have a different pay
24 method. Tomorrow you won't have two different
25 lines, though.

1 MS. NEUROTH: Correct. Anything else
2 on any of the topics that we have covered?

3 MS. WILLIAMS: I have a question.
4 Pam Williams with Shell. The strategic
5 petroleum reserve will be coming up in the next
6 couple months, how are we going to report that
7 on the 2014 if we don't know? Is there going
8 to be a separate transaction code? I know
9 that's kind of a current question, but it's
10 going to apply in the future, too.

11 We're told we only have to report
12 volume, and then our royalty obligation will be
13 satisfied. So I was just wondering since it's
14 supposed to be reported the first time in May,
15 how are we going to do that, if anybody here
16 knows what the plan is for that?

17 MS. NEUROTH: I especially do not
18 know the plan for that, possibly Mike Miller
19 could help us out a little bit on that. Do you
20 have any comments on it, Mike?

21 MR. MILLER: Well, we're having some
22 meetings right now to decide who is going to
23 report the 2014. There will be a 2014
24 reported. The question is going to be the
25 person taking it and what values will be

1 reported.

2 MS. WILLIAMS: I'll vote for the
3 person who takes it.

4 MR. MILLER: We're going to have
5 something pretty quick. It's a very timely
6 question.

7 MS. WILLIAMS: Okay.

8 MR. ANDERSON: I guess I wouldn't see
9 why that would be different than any take
10 in-kind. Why wouldn't that be just take
11 in-kind?

12 MR. SANT: Well, there's a slightly
13 different take in-kind because we're not giving
14 it to a purchaser.

15 MR. ANDERSON: I don't really care
16 who I'm giving it to as long as I'm filling our
17 obligation. It's still take in-kind to me.

18 UNIDENTIFIED SPEAKER: Currently it's
19 an independent refiner program. You have to
20 value it on 2014 which we have trouble with. I
21 don't know if others do. So we like that it's
22 only going to be volume on the royalty data,
23 and the royalty obligation will be satisfied,
24 just the volume.

25 MS. KENT: We liked it better when we

1 didn't have to do volume reporting either.

2 MR. SANT: We'll try to make it as
3 easy as possible but we do have some systems
4 constraints, like you probably do.

5 MS. NEUROTH: I guess that completes
6 the session then. Some of you may be attending
7 this afternoon session which we'll be talking
8 about the change in production report
9 requirements. That will begin at 1:00 in this
10 same room.

11 We also have copies of the list of
12 attendees for this meeting. If you want a
13 copy, they're right up here. And we appreciate
14 your attendance very much. Thank you so much.

15 (Recess taken.)

16 *****

17 MR. DIAL: Good morning all. Good
18 afternoon all. Welcome to the afternoon
19 session of some public meetings we are holding
20 today here in Houston to basically explore some
21 future reporting requirements that we're
22 contemplating in the Royalty Management
23 Program.

24 We had quite a crew this morning,
25 quite interesting. At least for me,

1 personally, quite an interesting task on
2 technical difficulties. That's what has me
3 back in the corner here behind the damn podium
4 so the folks can hear; Valerie can hear for us.

5 I've noticed several folks weren't
6 here this morning with us, and I'll just spend
7 a moment or two on why we're here and what
8 we're trying to accomplish and where we are
9 headed.

10 This is the first of two days of
11 public meetings to basically do fact-finding,
12 information-gathering on future reporting
13 requirements we're contemplating at the Royalty
14 Management Program.

15 This morning we covered the 2014 of
16 financial reporting. This afternoon at this
17 session we will be covering the future
18 production reporting requirements we're
19 considering.

20 As I emphasized this morning, these
21 aren't, quote, unquote, done deals. This isn't
22 cast in concrete. These are proposals we're
23 putting out for folks to consider.

24 We spent quite a lot of time over the
25 last year and a half, two years with industry,

1 States, Indian tribes in taking a look at the
2 potential future reporting requirements.

3 We have considered feedback from the
4 Royalty Policy Committee, a committee that is
5 composed of industry, States, Tribal folks who
6 give us recommendations, provide us guidance in
7 where they think we might ought to consider
8 going. We have worked with the Council of
9 Petroleum Accountants Societies, COPAS, over
10 the last couple of years in this area.

11 And basically why we're doing these
12 changes in reporting or contemplating them is
13 within the context of a reengineering
14 initiative and a systems modernization project
15 we have underway at the Royalty Program.

16 You have in front of you, hopefully,
17 a copy of the road map which basically is a
18 "Road Map to the 21st Century" which captures
19 where the Royalty Program is wanting to head in
20 its engineering initiative.

21 Also, you will have a copy of,
22 hopefully, the Federal Register Notice
23 announcing this meeting and capturing the
24 proposed changes in production reporting.

25 Also, we are having a similar meeting

1 next Wednesday in Denver for those who weren't
2 able to make it today, same sort of -- same
3 schedule: In the morning we'll cover financial
4 reporting, in the afternoon we'll cover
5 production reporting.

6 We're also working to have another
7 session in the Farmington area. We've been
8 working with TuckerBayless to have something
9 put together down there to get folks around
10 some of these reporting changes and get
11 comments and further information input. We
12 anticipate that probably occurring the latter
13 part of this month, early April. So watch for
14 that one if you're interested in attending that
15 session.

16 We have here today on our panel Mike
17 Miller. Mike is the Chief of the Accounting
18 and Reports Division. Basically Mike is on the
19 -- from a Royalty Program standpoint he is on
20 the front end of the reporting process. That's
21 his division receiving all the reports, all the
22 payments, whether they be production reports or
23 financial reports. He maintains all the data
24 bases that you're very familiar with, we talked
25 a little bit about this morning.

1 With him is Beth Danford. Beth works
2 in the production reporting area. Beth has
3 worked in this area for an awful long time.

4 MS. DANFORD: Thirteen.

5 MR. DIAL: Thirteen is the number.

6 And Beth has followed the financial area. Beth
7 has been leading the work that's been done in
8 the production area in terms of the
9 future-looking potential for production
10 reporting changes.

11 Beth knows the production forms
12 inside and out current and also has the
13 greatest insight into the future and some of
14 the ramifications we have observed in moving to
15 that future. Some of those things we gathered
16 from meetings with COPAS and the industry and
17 others that we'll gather through sessions like
18 this.

19 I'll leave off with that. Beth has
20 an overview of the proposed changes to
21 production reporting. The sign-in sheet, I
22 didn't see anyone who was interested in
23 presenting a prepared statement and that's
24 great. I mean, it works for the -- seems to
25 work well for presentations and dialogue and

1 discussions here and we'll go with that. So I
2 will turn it over to Beth.

3 MS. DANFORD: Is there anyone who
4 cannot hear me? I don't like the microphone.
5 So anyhow, since the big major change that
6 we're proposing is based on a Royalty Policy
7 Committee decision or suggestion which is to
8 eliminate the 3160 and get to one report. If
9 you look at it, it actually has more pros than
10 cons.

11 From the standpoint of anybody that
12 has offshore and onshore properties, they are
13 required to maintain two separate systems,
14 report two different total ways, to appease two
15 different groups of people. By going to one
16 form that will go away. The burden will be
17 gone with having to actually take care of two
18 systems and know the rules for which system.

19 Training would be easier to train one
20 system and one method. So the turnaround
21 throughout the industry and even in the
22 government, it would be a lot easier to train.

23 One of the major things is, right
24 now, the 3160, it only allows for seven ways to
25 dispose of your production and the rest goes

1 into "other." We have discovered through years
2 of getting just erroneous exceptions because
3 everything is crammed into the "other"
4 categories because there are more than seven
5 ways to dispose of your production.

6 People are being burdened with
7 erroneous exceptions. They're getting
8 additional phone calls from BLM and BIA because
9 they do not understand what you did with your
10 production.

11 And the benefits to the OGOR is right
12 now we have 44 ways for you to dispose of your
13 data -- not your data, your production, and I
14 already know of three more codes that we plan
15 on adding. So it just keeps growing and
16 growing. So you can actually dictate what you
17 did with every barrel, every MCF that you
18 produced, and there's no questions asked.

19 We have received BLM and BIA's
20 approval, and how we did this was Shell submits
21 all of their production, even though they have
22 onshore using the OGOR; and because BLM is
23 expecting the 3160, we take that OGOR and
24 convert it back to a 3160 to those seven common
25 elements, and then we pack all those other 44

1 dispositions into "other." And by then
2 visually seeing what was actually submitted and
3 what they ended up with, they thought, No
4 wonder we don't know what's going on!

5 They have agreed that this option
6 does give them more up-front data to where they
7 will not have to burden you as much, hopefully.

8 The other pro with going to the 3160
9 is with the -- what is it, the Paper Reduction
10 Act. I have trouble with that one. Currently
11 for the 3160 operators right now you're
12 reporting nine elements redundantly every
13 single month and you don't need to. We have
14 that data stored. So if we go to the OGOR,
15 those nine fields are not there. They are
16 actually stored in our system.

17 You do not have to keep giving us
18 your address. We know it. We know where the
19 well is; it's not going to move. So that will
20 eliminate the burden of the nine extra elements
21 if we get to go to the OGOR for the one total
22 report.

23 What I have provided in your handouts
24 is a little -- I don't know -- chart that I
25 developed. There's two of them. One shows the

1 current 3160 by data elements including the
2 header, the detail, the trailer compared to the
3 proposed OGOR that's in the Federal Register
4 element by element, and then the following --
5 the end column is the comments. I've indicated
6 either that there's no change -- this is going
7 to be optional for the onshore people.

8 Remember, this is 3160 which is
9 required for onshore compared to like an
10 onshore OGOR. A lot of this stuff you're
11 already giving to us with the exception of the
12 disposition code. Right now you're just using
13 sales as a bucket to throw everything in, and
14 now you'll have to use a disposition code 01
15 which is direct sales.

16 But if you're not mainframe-driven
17 and you use our template that we're going to
18 really beef up, you can actually pick the word
19 "sales," and behind the scene it will plug the
20 codes for you. We're going to try to make that
21 template as user-friendly as possible.

22 Do you want to go element by element,
23 or do you just want me to go through the big
24 changes that we're proposing?

25 Essentially the elimination of the

1 3160 is the biggest change that we are
2 proposing. And again, we've gotten BLM and BIA
3 approval to actually submit to them an OGOR if
4 it's submitted to us. If it's submitted to us,
5 though, is depending on you-all's comments.

6 MS. SAMMONS: I would personally like
7 to -- my name is Christell Sammons with Devon
8 Energy, and I would like to go through this
9 just to see the comparisons so --

10 MS. DANFORD: Okay.

11 MS. SAMMONS: -- I know what we're
12 going to have to change.

13 MS. DANFORD: Okay. No problem.
14 Currently on the header right now all you can
15 do is a complete overlay. So if you're
16 reporting a unit that has 300 wells, you're
17 having to report all 300 wells again. So it
18 overlays your original report, okay, even
19 though you may have been missing just one.

20 And the problem with that is -- let's
21 say we're missing a well, you may come back
22 with an amendment but then you may have
23 forgotten one. So then we keep going through
24 this amendment overlay stage, and it's more
25 paper for everybody and storage space than

1 needs to be.

2 What we're proposing for the OGOR is
3 currently the functionality for the OGOR is a
4 delete/add. It's called a modify. And what
5 that is, is if there's nothing wrong with your
6 report but you forgot to report, you know, a
7 T&A'd well, you would just submit to me an OGOR
8 with an "add this well to my report that you
9 already have in your system."

10 You are not having to report all 300
11 wells plus one more. You only send me the line
12 you're missing. And also, if you like, they're
13 doing a reallocation, and it only affects one
14 producing well out of 20, the rest are shut-in.
15 You only have to touch that one well that's got
16 the production. You don't have to touch the
17 rest.

18 MS. SAMMONS: And what if it affects
19 the totals, though?

20 MS. DANFORD: Then you have the
21 option of doing the amendment which is no
22 different than the 3160 now. Give me a new
23 one, I'll overlay it. So you'll have two
24 methods.

25 And what we're proposing is not going

1 to be like for Devon, you're not going to have
2 to say, "Okay, I'll always send you an
3 amendment." It will be completely what you
4 want for the situation that you need to amend.

5 MS. SAMMONS: Don't you think you
6 will still see, though, a lot of amendments
7 subsequently without the whole lease number
8 being adjusted? Are you not expecting that?

9 MS. DANFORD: You know a lot of the
10 modified OGORs that we get now, I mean, like in
11 the case of a unit that's got 300 wells, there
12 may only be 20 that are affected by a
13 reallocation. And yet companies are having to
14 submit -- I mean, they only do those 20 now,
15 just the 20 wells. We'll delete the 20,
16 they'll re-add the 20 and show the volume
17 correction on a modified. Okay. Am I losing
18 you?

19 MS. SAMMONS: We normally just do the
20 whole lease number when we modify that, I
21 believe.

22 MS. DANFORD: And all the data
23 associated with it. And that's fine. Under
24 the new proposed OGOR you can still do that.

25 But if I call you and say I have a

1 missing well, wouldn't you rather have the
2 option of just sending me a line, or would you
3 want to send me the whole report all over
4 again?

5 MS. SAMMONS: I'd go for just sending
6 you one line.

7 MS. DANFORD: Right. And that's what
8 the new proposed OGOR allows: Two methods for
9 you to choose based on what you need to modify.

10 Right now the 3160 requires you to do
11 an amendment, and right now the current OGOR
12 requires you to do delete/add. So this is kind
13 of a combination of both worlds hopefully
14 appeasing everyone.

15 For report period, operator number,
16 and operator name there will be no change.
17 This field exists on the 3160, and they also
18 exist on the new proposed OGOR. On the OGOR,
19 though, we do have some operator fields:
20 operator lease agreement number and operator
21 lease agreement name. Those are optional.

22 But we do encourage for the purpose
23 of error correction -- a lot of times you guys
24 are used to the OCS-G number versus MMS lease
25 number. And if you populate that field, then

1 we can communicate faster with you as to what
2 fields we're trying to error correct. So it's
3 optional but it's there really for speeding up
4 the error correction process.

5 The MMS lease agreement number, if
6 you don't complete it, then you're going to
7 have to provide the agency assign number. We
8 need one or the other. And right now the MMS
9 lease agreement number does not exist on the
10 3160. So if you're coded to always send the
11 agencies, we'll keep taking agencies. So you
12 will not have to be forced to code to give us
13 the MMS lease number.

14 The next five fields are fields that
15 we do retain in our data base as BLM has
16 already provided to us. Those are the fields
17 that you're currently being burdened with
18 recording every single month. If we get to go
19 to the new proposed OGOR, they're gone.

20 Any questions about the headers? Am
21 I going too slow? Too detailed?

22 MS. SAMMONS: That's fine.

23 MS. DANFORD: The 3160 well
24 information compared to the OGOR detail which
25 is considered the Part A. Currently you do not

1 have an action code, and the reason why you
2 don't have an action code is because you're
3 doing an amendment, and it's considered to be
4 an add. Because if you're sending me a new
5 one, I'm blowing the old one away.

6 Now you have the option of either --
7 you must have an A for your original, okay, and
8 your amendments because you're going to do an
9 overlay. But if you're going to do a modified,
10 there is an additional code for the delete.
11 Delete this line out so you can re-add it with
12 this one.

13 The API well number is really no
14 different except on the OGOR the API well
15 number is considered the full digit number plus
16 the producing interval code.

17 For operator well number, the only
18 difference is we allow just three less
19 characters. Now, if that's a big problem, we
20 can expand it back to the size of the 3160.

21 This is your internal well code number.

22 The next three, the location of the
23 well, again, we know where it is. It's not
24 going to move. So going over to the proposed
25 OGOR, you'll no longer be burdened with

1 reporting that same redundant information every
2 month.

3 The BLM production status code is
4 what we call the well code on the OGOR. And
5 how we propose to do this is you guys are used
6 to doing alphabets for the 3160. We propose to
7 retain that function. In addition to allowing
8 codes like we do for the OGOR, codes always
9 match to alpha names. Okay.

10 The only exception of using a
11 three-digit code like a producing or like an
12 oil shut-in, if you're offshore and you can't
13 do that, you're going to have to report the 12
14 which equates to an oil shut-in because OCS
15 still requires the reason why your well is
16 shut-in which is considered proprietary still.
17 That's just for OCS wells.

18 BLM onshore wells, you can go ahead
19 and continue reporting the three-digit code
20 like you're used to.

21 Production days, no difference. We
22 just now call it days produced. The oil, gas,
23 and water quantities, no change in what you're
24 use to reporting by well.

25 Additionally, though, on the OGOR

1 there is a column for injection which is
2 something BLM is really missing. This will let
3 you identify by well by producing intervals how
4 much was injected into it down hole. And then
5 if you leave any of the totals empty, if you're
6 onshore/offshore, we will go ahead and
7 calculate them for you. That was an RPC
8 recommendation.

9 MS. SAMMONS: Am I looking at -- I'm
10 sorry, am I looking at an oil, gas, water, and
11 injection column now?

12 MS. DANFORD: Uh-huh. Yeah. In the
13 Federal Register, the back pages, there is a
14 proposed OGOR. So you have your oil, your gas,
15 your water column, and then over far to the
16 right you have an injection column. Now that
17 can be a combination of water and gas if you
18 want. You just break down the total as to how
19 much was each product. Okay.

20 Multiple products are combined on the
21 same line, but then for the totals, if you want
22 to identify, I mean, for whatever reason why
23 you would put the injection, you know, water
24 and oil into the same zone, you would put like
25 300 barrels, but then down on the totals you

1 would say but 200 was oil, 100 was water.

2 MS. SAMMONS: So we won't designate
3 them on different lines? Because we have gas
4 and water injection on the same well bore.

5 MS. DANFORD: And if it's like a huff
6 and puff well where you have your gas injection
7 and then your producing oil wells, it is two
8 lines.

9 MS. SAMMONS: Still going.

10 MS. DANFORD: One line will show your
11 gas -- I mean, just your injection. The other
12 line will be your production line.

13 But offshore we do have wells and we
14 do have a well status that allows production
15 and injection on the same exact line. And for
16 clarification purposes, your totals are the
17 only thing that tells us what product you
18 injected.

19 The disposition information which is
20 called the OGOR-Part B, line number is new.
21 Action code is just like on the OGOR-Part A.
22 We need an add or a delete based on what your
23 header flag is, either you're doing an
24 original, a modified, or an amendment.

25 Disposition code is new for the 3160

1 people because you're use to just putting a
2 total in a bucket, total sales, total
3 inventory. Now you can actually break out how
4 much you sold.

5 And the best example I can give which
6 goes down to the metering point column is if
7 you have three banks of tanks and they're all
8 individually stripped and gauged, right now
9 you're being required to sum them. By putting
10 anything in the meter column, you can now store
11 them and sell through them individually. Put
12 the serial number, put whatever you want,
13 whatever identification you want. You will no
14 longer have to roll it up and sum it like the
15 3160.

16 MS. SAMMONS: What advantage does
17 that have?

18 MS. DANFORD: Clarification for BLM.
19 When they actually saw like when you do
20 adjustments to the tanks, they can see which
21 tank the adjustment came out of, not just the
22 whole field.

23 MS. SAMMONS: But that is not
24 required, that's optional?

25 MS. DANFORD: No, it's not required.

1 It's not going to be required for onshore. It
2 is required for offshore because they do
3 production verification based on run tickets.
4 And so it is by an FMP basis.

5 But in the case of a disposition,
6 let's say you have three orifice meters, if you
7 want to -- because you're individually
8 recording each of them separately, you have the
9 ability to do three sales lines just by
10 distinguishing something different in that
11 meter column: meter one, meter two, meter
12 three, and then you can report individually
13 your sales which could aid in the inspection
14 through BLM.

15 Product code will be required because
16 like an 01 disposition which is called a direct
17 sale, you can directly sell your oil or your
18 gas. I need to know which one.

19 On the current OGOR -- and this is
20 because the OGOR-B is separate from the
21 OGOR-Part C which is inventory. Inventory is
22 only maintained currently on the OGOR-C. This
23 proposal puts the B and the C together.

24 So I'm already on a legal-size piece
25 of paper, and I had no extra room to put

1 individual volume product columns. So we had
2 to add product codes. But there are only three
3 choices, 01 is for oilcondensate, 04 for gas,
4 or 20 for water.

5 MS. SAMMONS: Is that going to be
6 both offshore and onshore?

7 MS. DANFORD: Yes. Yes. The
8 proposal is -- what you're looking at will be
9 for both offshore and onshore properties. The
10 only distinguishment will be is if you're an
11 onshore operator, there will be optional fields
12 because you're onshore. That's it.

13 When you transfer your gas right now,
14 right now even though you go probably to two or
15 three plants, you're limited to one number and
16 you're putting the last four digits. We really
17 store -- we have the full 11-digit number in
18 our system.

19 And by going to the OGOR, if you do
20 go to three plants, you're allowed to show the
21 volume that transferred to each of them.
22 Because we have the FMP -- the full FMP numbers
23 for all the gas plants which we will put out to
24 you, and when we go to the World Wide Web,
25 they'll be out there. They'll be updated

1 constantly.

2 So if you're looking for a gas plant
3 name, it will pop right up to the number for
4 you. So right now you're only required to do
5 four digits.

6 And even though you go to multiple
7 plants, you must pick one of them. But now you
8 can actually select all of them that you're
9 going to. But you no longer need to give us
10 the name because the name doesn't change with
11 the number.

12 API gravity, no change; Btu, no
13 change. On the current OGOR, though, it is one
14 field and we have noticed that through our
15 editing processes sometimes people have trouble
16 with that decimal point. And so we've just
17 broken out the fields and made them separate.

18 It's really hot in here. Milt, it's
19 really hot. Can we do something? I'm dying up
20 here.

21 MS. SAMMONS: Take your jacket off.

22 MR. WATSON: Was there a specific
23 reason for calling the proposed Btu where the
24 OGOR was the Btu content?

25 THE REPORTER: Who was that?

1 MS. DANFORD: Oh, sir, you need to
2 address your name, because we're having a -- we
3 have a --

4 MR. WATSON: I'm Fred Watson with
5 Exxon.

6 MS. DANFORD: No. No, really no
7 change. And if you'd like us, we could retain
8 the content. I think there's room. There is
9 no difference. I mean, the same -- just what
10 you've been putting, just the name of the title
11 has been changed.

12 GPM and Mol percent Methane. These
13 are two new fields that we've added. With a
14 consent of when you transfer your gas and you
15 need to allocate back correctly the NGLs and
16 the residues, the GPM and the Methane Mol
17 percent is really all we need to be able to
18 verify versus all of the elements that are
19 currently on the gas analysis report.

20 Those two fields replace this form
21 which is required for offshore people, okay, or
22 whenever there's a question on an onshore
23 property, we cannot properly allocate back to
24 the lease level.

25 We propose that with these two

1 additional fields on the OGOR, we will not have
2 to burden operators with submitting that except
3 in very extreme cases.

4 MS. SAMMONS: Onshore, too?

5 MS. DANFORD: Onshore, too. Now, how
6 I plan on editing in this field, though, unless
7 we can think of a better place to receive this
8 data is it needs to be initialized. Okay. I
9 know that these volumes are being determined
10 based on the contracts that you have for the
11 sampling, and it is all different based on
12 meter.

13 Essentially if you just initialize
14 it, give me a value to start with and then
15 change it as your samples change, there should
16 be no downstream impact to the compliance area,
17 because the data will be there for them to do
18 their allocations back.

19 Now, if an operator opts to never
20 complete these or never update them, the
21 downstream impact is you may get our lovely
22 AFS/PAAS letter asking for that information.

23 So right now this gas analysis report
24 is when we ask for it, you have to submit it
25 monthly even though the data is static.

1 MS. SAMMONS: On offshore?

2 MS. DANFORD: On offshore. And we do
3 have a few onshore because we are watching a
4 few onshore gas plants.

5 MS. SAMMONS: This kind of bothers me
6 just a little bit in the fact that right now we
7 don't have a place to retain that, and I think
8 that will take us a while to get that.

9 MS. DANFORD: Do you have any other
10 suggestions on how we could initialize that
11 data and keep it up-to-date other than phone
12 calls, letters? Somehow we need it in our
13 system, and we need to keep it updated as often
14 as your samples are changing.

15 I mean, the only other thoughts we
16 have had is, you know, collect it the first
17 time the well is sampled and never collect it
18 again.

19 This is one that I hear a lot of, you
20 know, "I don't like it," but we need something
21 because of the transferred gas. Because when
22 you transfer your gas, we are not expecting,
23 you know, an 04 product code for that same
24 volume. And so we need to make sure that we
25 are not cheated in any way.

1 MS. SAMMONS: We figure that out.

2 MS. DANFORD: So we are open to any
3 suggestions you have. I mean, if these two
4 columns come out, then we would have room to
5 put two more volume columns back onto where you
6 wouldn't have to put a product code.

7 I mean, it's all got its pros and its
8 cons, but somehow we need to still collect this
9 data, and I'd really not like to have to go to
10 the GAR, except in rare cases.

11 MS. SAMMONS: I'd like to think about
12 that.

13 MS. DANFORD: Would you like to look
14 at this? Okay. Page 3, the quantity fields.
15 Again, you're used to just putting a total in
16 -- I just want to call them buckets, but
17 fields.

18 Now, with the product code
19 combination and disposition code, those will
20 replace those buckets. These are essentially
21 one in the same. We can figure it out.

22 And what I have done over in the
23 comment section is showing you the combination
24 that equates to what you used to put in for gas
25 flared vented that the codes are really 04 or

1 you have your choice of 21 or 22 based on what
2 type of oil, if it's an oil well or a gas well.

3 All the way down to oil produced
4 quantity, gas produced, water produced, we have
5 the same on the OGOR; and again, it's a total
6 column, so if you leave it blank, we'll go
7 ahead and calculate it for you.

8 Facility number which now we've moved
9 into the inventory part which is now the
10 OGOR-Part C all by itself. This again will be
11 optional, but if you have multiple tanks
12 onshore and you want to keep them separate
13 instead of summing them and you want to do the
14 individual adjustments as they're really
15 happening, you can individually report by just
16 putting something in that column: tank one,
17 tank two, tank three.

18 Production quantity, you don't
19 currently have, but what this is, is it's
20 showing how much -- in the event that you want
21 to break out your inventory, it's showing
22 actually of your production how much went into
23 each tank that you produced.

24 Your adjustment codes allow you to
25 stipulate why you're making the adjustment and

1 then the volume. The only problem with this is
2 you've got to pick a single code, kind of like
3 back to the 3160 concept.

4 Even the current OGOR people can only
5 pick a code, and they pick the code that
6 associates the greatest volume. If they have
7 any kind of questions between why we have this
8 much loss but this much gain, they'll put a
9 comment to clarify.

10 You currently have the other
11 disposition description, that goes away because
12 we've given you up to 50 different codes to
13 pick from as to how you dispose of your
14 production.

15 What is called now oil ending on hand
16 inventory is now just called ending inventory
17 quantity, no change. Totals, again optional.
18 We'll total them for you if you don't want to.

19 The authorization. Contact name, we
20 have reduced this field down to 20 digits.
21 That's currently what's on the OGOR, and we
22 haven't had a problem with anybody's name being
23 over 20, but if you know of someone's name
24 that's going to be over 20, we can make it
25 bigger.

1 No difference to the phone number,
2 the extension. Address 1, 2, and 3, though,
3 you will no longer be burdened with having to
4 tell us every single month. We never really
5 were updating our system even if you were
6 changing. We were just accepting it.

7 Signature, no change; date, no
8 change. And remarks has reduced down in
9 digits. And if you feel that that's a problem,
10 it's something very easily we can fix. So
11 that's the comparison of the 3160 to the OGOR.
12 Again, they look totally different but they're
13 really not. Questions?

14 One of the comments that we are
15 looking back for solicitation on is how much of
16 an impact this is going to have on the current
17 3160 people, how much of a hardship. You know,
18 with the twelve -- what is the months? Twelve
19 to eighteen? Be enough time if you have your
20 own system or, you know, will just popping in a
21 different template satisfy things.

22 One thing for historical data that
23 we're proposing, but again, until we get a
24 contractor on here we really don't know is
25 because BLM has already given us the okay that

1 they really would like to receive this OGOR, I
2 have hopes -- and because we currently take the
3 onshore OGORs and convert them to 3160s, I
4 foresee the reverse process could happen.

5 I know those seven dispositions that
6 you're currently reporting. I can put a code
7 on them. And for anything sitting in "other,"
8 I can make a new code that we don't have to
9 transfer that volume.

10 Say this use to be "other," which
11 when you come in and modify any old month, you
12 would then have the option of deleting that 59
13 and coming back with a code. They really did
14 apply to eliminate an exception that we had.

15 So that's what I'm kind of thinking,
16 that we're not going to have the 3160s stored
17 at 3160s. We're thinking of converting them
18 and providing conversions for people if they
19 want to upload them to their computer.

20 The other thing I think for those of
21 you who may have been here this morning, when
22 -- we want to do a lot more to our Web area and
23 allow you to see your data. That will include
24 how we have your lease currently stored for a
25 specific report period.

1 So if any of you have any questions,
2 "I wonder what they have stored for this month;
3 should I do a delete versus a complete
4 overlay," that information would be right in
5 front of you for you to decide. Yes?

6 MR. BOHANNAN: I'm John Bohannon with
7 Seneca Resources. Would these changes on the
8 OGOR affect the file format if we're
9 electronically transferring the data now?
10 Would that change?

11 MS. DANFORD: You're currently an
12 OGOR or 3160 operator?

13 MR. BOHANNAN: Both.

14 MS. DANFORD: It would change it a
15 little, but until we get a contractor in, we're
16 also going through an EC vendor right now
17 that's going to take care of all of our
18 electronics. It's kind of a central point
19 where all the electronic data will be coming
20 into that will be a part of this.

21 Once we can all agree to the same
22 thing and we can tell them what we are going to
23 initially be coding for, I guess is -- I'm
24 sorry, it's a little premature for me to
25 answer, but I would say it would change a

1 little. Because even if you look at the other
2 spreadsheet that I have for the current OGOR,
3 the proposed OGOR, there are changes.

4 I mean, the OGOR, except for the
5 OGOR-Part A, the only difference to the
6 OGOR-Part A is currently the well status is 13
7 digits long. I have changed that down to four.
8 That's the only change to the A, but the impact
9 to the B and the C being merged, that's no
10 longer two parts with a header and a trailer
11 and, you know, all the different codes that I'm
12 changing parts that would go away.

13 If we retain the merging of the B and
14 the C, if we broke them back apart, it would be
15 less changes to your current existing OGOR
16 file.

17 MS. SAMMONS: I'm just kind of
18 curious about what kind of feedback have you
19 gotten from other companies on the Mol percent
20 Methane in the GPM. I'm just curious if there
21 are other --

22 MS. DANFORD: Hey, Don, you want to
23 tell her your standard comment that you --

24 MR. LYNCH: We basically feel that --
25 again, my side is offshore so I'm not used to

1 eliminating support.

2 THE REPORTER: Can you speak up?

3 MR. LYNCH: We see it as an
4 improvement instead of detriment as far as the
5 addition of those two line items.

6 MS. DANFORD: Some of the other
7 partners have indicated that it's not something
8 currently in their system, but when we ask
9 them, "Well, could it be?" It's like, "Well,
10 yeah."

11 You know a couple of them are also
12 like, "Well, you can leave a blank," and it's
13 like, "Okay." But keep in mind that there's
14 nothing to stop the end process. Either tell
15 us now or tell us later if you get caught.

16 There was also talks of actually
17 requiring this every month even though it's
18 static data, and through the models they have
19 already decided no.

20 Let them initial -- please ask them
21 to initialize it and then keep changing it as
22 their samples change because everything is
23 different. I mean, even for a specific lease
24 you're not all on the same sample for your
25 meters.

1 And again, the other option is going
2 back to initially when you first sample that
3 well you have to send it to BLM and offshore;
4 send it to us, too. We'll initialize our
5 system. We key it in. We never talk to you
6 again because I guess apparently it doesn't
7 change much throughout the life of the well.
8 Is that true, Don?

9 MR. LYNCH: Well, not to any great
10 extent on the (inaudible) out of the same
11 reservoir. If it's used on multiple
12 reservoirs, it's a combination of change. Like
13 on an offshore platform where you have got one
14 sample, but normally it's --

15 THE REPORTER: I can't hear you.

16 MR. LYNCH: Normally it's below the
17 trend if there is a change. It's not normally
18 a drastic change.

19 MS. SAMMONS: I just have one more
20 question.

21 MS. DANFORD: Sure.

22 MS. SAMMONS: If this is furnished to
23 the people at BLM, I don't do the sundry part
24 of it, so is that coming in on sundry or
25 completion report or --

1 MS. DANFORD: I think it's coming in
2 on initial well test.

3 MS. SAMMONS: Initial well test?

4 MS. DANFORD: It does for offshore.
5 There's a well test report that's required when
6 you spud your well. You have to provide an
7 initial well test sample to the district.

8 I know for offshore -- and I
9 apologize, I'm very heavy with offshore in
10 knowledge. But yes, that would be data we
11 would be giving back to them. They would have
12 it in their computer.

13 The idea with them accepting that
14 yes, they want the OGOR, if we can get it from
15 everyone is that they will take it as we
16 receive it from you.

17 MS. SAMMONS: And then if it should
18 change then?

19 MS. DANFORD: We update with them
20 every single week. Yeah, they send us data
21 back on the wells for onshore.

22 Offshore they send us wells and
23 facilities every day. And every week the
24 information that we processed for you-all goes
25 back to the office with the inspection.

1 Gee, any questions about the
2 elimination 3160/new proposed OGOR? Again, I
3 did -- there is another separate thing for the
4 people that currently do the OGOR. It shows
5 you the difference now between the proposed.
6 It is just a quick and dirty sheet to see
7 what's different, but there really is not much
8 change.

9 MR. BOHANNAN: I have one more
10 question.

11 MS. DANFORD: Sure.

12 MR. BOHANNAN: When you make a
13 revision that would be retroactive to the old
14 form, you file the old form or the new form, or
15 is the data base going to be converted where
16 you always use the new form?

17 MS. DANFORD: I'm proposing with the
18 new contract that the currentOGORs that we
19 have in our system in addition to the current
20 3160s would all be changed to new OGOR. And if
21 companies needed a lookup of that information
22 or a download, because we already have it
23 stored on our system, we could provide it to
24 you and you can do an upload.

25 And thinking of that concept so we

1 don't have to really still maintain a 3160 data
2 base in a conversion program that will get us
3 still to the point where we are now, we don't
4 have enough dispositions to give BLM the full
5 picture on what you did with your dispositions
6 if we keep the 3160 as it is now even though
7 you have to go back and do an amendment.

8 I don't know what your thoughts are
9 on that, but trying to think of not trying to
10 get into the same situation that we are now
11 where if BLM wants more data, about the only
12 way we can do that is if we do the back
13 conversion, reverse the conversion process, and
14 take the 3160s and make them look like OGORs
15 and the same with the current OGORs.

16 And essentially for the current
17 OGORs, I mean, if you had to give us the full
18 12-digit number for your gas shut-in well, it
19 would just be stripped. We would just retain
20 the shut-in and the reason code. Your B and C
21 would just move together. But if you needed a
22 picture of that so -- you could then send us,
23 you know, any modified. I'm hoping that we
24 will be able to provide that to people, couple
25 of them. Going to fight for you if you want

1 it.

2 Any more questions on the OGOR? The
3 only other comment I want to make is the BLM
4 does approve other than monthly reporting for
5 some leases that are shut-in for some reason
6 and cannot come back on production, that
7 concept won't change. We will have in our
8 system your frequency that's stored, otherwise
9 it will assume that we will get one of these
10 every month.

11 The next form -- if there's no other
12 questions, the next form is the gas plant
13 report. Right now this is required monthly
14 from offshore. We do monitor a few onshore gas
15 plants, though, for BLM. They do ask us every
16 now and then to start monitoring a plant.

17 Right now for the proposed ones in
18 your handout, and I should have brought for
19 those that have never seen, this is the current
20 report. It's a nightmare to fill out. You
21 have to be a chemical engineer to fill it out,
22 number one, and even error correct it.

23 We have now reduced it down to only
24 elements we need with the addition of the Mol
25 percent Methane and the GPM to accurately get

1 back to verify transfer volumes. So in the
2 event where BLM wants to pick on another
3 onshore plant, that new onshore plant would
4 submit the new GPOR, not the old nasty GPOR.
5 Any questions? No. Okay.

6 Well, the last form which is just for
7 offshore is the Production Allocation Schedule
8 Report which we -- because everything in the
9 Gulf of Mexico and the Pacific region is
10 commingled together, we have to have this piece
11 of the puzzle in order to get from the sales
12 point which is onshore back 300 miles offshore
13 through about 18 different platforms. So we
14 need this form in order to do our verification
15 of the run tickets that we do every month with
16 offshore.

17 The only changes I have made is I
18 have gotten rid of product code which currently
19 exists. The actual FMP number that is used for
20 offshore implies what product you have. So
21 it's kind of like a no-brainer. So we took
22 that out. You're not burdened with that
23 anymore.

24 We have also broken up the API Btu,
25 and through solicitation of some comments

1 through some of our big separation facilities
2 that have to send a lot of these in, we have
3 asked them how can we make this better for you
4 so it's not so burdensome when you have to fill
5 it out every month. And what they've asked us
6 to do is add quite a few or three or four
7 operator fields for them for identification
8 purposes. So they are there. They are -- plan
9 on not editing them at all. They will be
10 optional. They are just for your purposes.

11 Within the detail part what I did is
12 eliminate the delivered production. In our
13 current system right now it is not being
14 edited. You don't even have to fill it out
15 because it's a numeric field. All it wants is
16 a zero and it's already got the zero.

17 So we have taken it off because of
18 the Paperwork Reduction Act. We do however,
19 though, still need the sales column.

20 The other thing I took off is
21 beginning and ending inventory. There was
22 really no reason for that. And we also added
23 -- we increased the lines of detail, because a
24 lot of people were just having a line put on
25 the second page. And now we've allotted for

1 more to come on just one page.

2 Now, for the GPOR and for the PASR
3 and what are proposed are templates, a
4 template, or if you currently have it in your
5 system as an Excel or a Lotus or whatever, it
6 can be converted just like you OGORs do and
7 come in either an ASCII format or a CSV, comma
8 separated value.

9 Right now the OGOR and 3160 are the
10 only things we can take electronically, and we
11 get a lot of questions, "But why can't I send
12 these other ones in?" And we -- in our new
13 program we plan on allowing for that.
14 Questions? Okay.

15 MR. BOHANNAN: On the report type is
16 it going to be allowed to make an amendment?
17 It does not state that. It only has original
18 or modified.

19 MS. DANFORD: Right now no, but if
20 you feel that that's valuable, it's something
21 we could propose.

22 One thing I've seen that we're not
23 going to do like we do right now is for the
24 3160, let's say you've amended that thing 30
25 times. Guess what? We have every single one

1 of them, and they're stuck on a tape somewhere
2 and we can't even get them off.

3 What I propose if we go with the
4 amendment is that we will only retain like your
5 original, your prior original, and then the
6 rest will automatically be wiped out. We could
7 do the same for PASR, but we've got to consider
8 storage. But that is -- that's a good
9 suggestion. It is workable, doable.

10 MS. WILLIAMS: Pam Williams with
11 Shell. Somebody was telling me yesterday you
12 guys are only going to accept production
13 reports on EDI and not E-mail and diskettes or
14 the other ways. And I said that didn't make
15 any sense to me but -- so I thought I would ask
16 while I was here.

17 MS. DANFORD: The EC rule in store is
18 final to be effective in September.

19 MR. LYNCH: The answer is no, you can
20 report on various electronic media, but we are
21 going to get a EC vendor so that that vendor
22 will turn it all into the X8, whatever.

23 MR. MILLER: X12.

24 MR. LYNCH: X12. So we should have a
25 vendor that does that for you.

1 MS. WILLIAMS: So we can still send
2 it in the other way, but the vendor will do
3 whatever they've got to do. Okay.

4 MR. MILLER: Yeah.

5 MS. DANFORD: More? Come on, Don,
6 you always have a question.

7 MR. LYNCH: No question.

8 MS. DANFORD: You've seen this
9 enough, huh? I didn't spring anything new on
10 you.

11 MR. LYNCH: Just wait for our
12 comments.

13 MS. DANFORD: Looking forward to it,
14 Don. Milt?

15 MR. DIAL: I just think as a closing
16 comment, we're continuing to do this kind of
17 information-gathering.

18 Again, we'll be in the Four Corners
19 area here later this month, early April. We're
20 -- somebody asked what's the general census of
21 feedback we've been getting on having one
22 production form versus two sitting out there.

23 For folks who are preparing OGORs and
24 3160s, they seem -- the folks seem to like it.
25 Some have said, "Boy, I wish you'd done this

1 two or three years ago because I've already
2 made some systems changes to accommodate both."
3 But generally it's fairly positive going to one
4 form if you're preparing both the 3160 and the
5 OGOR.

6 Pure 3160 reporters, we've had a few
7 comments, and they're studying this to see what
8 are the system impacts there in terms of
9 dealing with several more data elements.
10 Remember, it's data elements that we're after
11 here.

12 The look of the form is becoming
13 interesting for museums, but it's becoming sort
14 of passe', just not in terms of electronic
15 commerce and other avenues that we're pursuing.
16 It's just not relevant much anymore.

17 But we have gotten some feedback from
18 folks that -- PC-based software that's out
19 there for OGORs, 3160s. The OGOR stuff is
20 better than what is available for 3160s.

21 We've gotten some very recent
22 feedback that price of oil is pretty low and
23 budgets are really tight, and this may not be
24 the best time to do this. And so that's kind
25 of the spectrum of the feedback we've been

1 getting. And most of it has been really
2 through sessions like this and orally and over
3 the phone, meetings with the COPAS folks, IPAA,
4 IPAMS. You name it; we've been out there.

5 And this one -- this one is -- what's
6 made it interesting probably is \$10 oil made it
7 very interesting.

8 I think on the -- I harken back,
9 before we close, to the financial side. We get
10 pretty positive feedback in that area that
11 there is a lot of positive things in those
12 financial side changes because it is stripping
13 a lot out of a lot of that reporting burden
14 that's in there, so it generates pretty
15 positive in that area.

16 Some areas that need to be tuned up
17 that we've touched upon, but again, we'll be
18 doing several more of these sessions next week
19 in Denver and the end of the month, early
20 April, down in Farmington. And the dialogue
21 really does continue.

22 We ourselves have been focusing on
23 COPAS, and COPAS brings in IPAMS, COPAS brings
24 in ICAA, Carla Wilson, and everybody here
25 probably knows Carla. Carla is a regular

1 attender and gets things out real nicely in
2 feedback.

3 We really do encourage folks to stay
4 with this thing to see where it takes us.
5 Again, as I mentioned early on, nothing is cast
6 in concrete now. It's not fixed, firm, and
7 final, or whatever the words are. We're still
8 working the process.

9 Appreciate you being here. Beth did
10 quite nicely today in going over those -- I'm
11 very comfortable with the financial forms.
12 These production forms just drive me crazy.
13 Just drive me crazy.

14 But I guess we don't have any further
15 questions or comments, we'll close the session.
16 Thanks all.

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1 State of Texas

2 I, Valerie B. Corrales, Certified
3 Shorthand Reporter in and for the State of
4 Texas, certify that the caption to this
5 deposition correctly states the facts set forth
6 herein; that the examination of the witness
7 named in said caption was correctly reported in
8 shorthand by me at the time and place and under
9 the agreement set forth in said caption and has
10 been transcribed from shorthand into
11 typewriting under my direction and supervision
12 in the foregoing transcript; and that said
13 transcript contains a correct record of the
14 proceedings had at said time and place.

15 I further certify that I am neither
16 attorney or counsel for, nor related to or
17 employed by the parties hereto or financially
18 interested in said action.

19 Given under my hand and official seal
20 of office this the 23rd day of March, 1999.

21 _____
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